S. Hrg. 100-615

MINORITY BUSINESS DEVELOPMENT ACT OF 1987

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

S. 1848

TO AUTHORIZE A MINORITY BUSINESS DEVELOPMENT ADMINISTRATION IN THE DEPARTMENT OF COMMERCE

MARCH 3, 1988

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MINORITY BUSINESS DEVELOPMENT ACT OF 1987

THURSDAY, MARCH 3, 1988

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room SR-253, Russell Senate Office Building, Hon. John F. Kerry presiding.

Staff members assigned to this hearing: Sheryl Webber Washington, professional staff member; and Mark Farrell, minority professional staff member.

OPENING STATEMENT BY SENATOR KERRY

Senator KERRY. Good morning. The Commerce Committee hearing will come to order.

We will be operating this morning, unfortunately, under certain constraints of schedule, and various Senators coming back and forth. We have a half-hour vote that is on right now. I voted at the front end of it, which is why we are starting just a little bit late.

Senator Wilson will be joining us after that. This morning I have one hearing which requires votes and another meeting which I also have to attend, during which time Senator Adams, who is a member of the committee, will also be here and be chairing.

So I ask all the panels and all the participants to bear with us, but I believe there will be adequate continuity between us in terms of the questions.

As you all know, we are holding this hearing this morning on S. 1848, which is a bill that I introduced with Senator Wilson last November in order to provide statutory authority for a Minority Business Development Administration within the Department of Commerce.

The primary purpose of this legislation is literally to provide a permanent home within the current Commerce Department for a Development Administration which would replace the current Minority Business Development Agency that was created by executive order some 20 years ago. This will permit the new administration to continue the programs of the current agency while at the same time, I think, expanding their ability to be able to serve both public and private sector businesses of all sizes within the minority community.

In recent years, as we know, unfortunately too well, the MBDA's existence has really been challenged on a number of different occasions by the efforts to transfer that agency to the SBA, or by the effort subsequently to take some programs from within it and transfer those programs, in effect dissecting the current agency component.

It was at that time, in response to the funding cuts, that I introduced the legislation, partly because of the lack of, I think, input and coordination about the proposal and the proposed change, but even because the concept itself, I think, is flawed. There are many reasons for that. Obviously we are going to explore those reasons here this morning. But I think central to it is just the distinction between the SBA and what it is doing, and particularly what it is doing with respect to minority businesses, and the Commerce Department and what it has the ability to do, as well as what the MBDA has done so far with respect to minority businesses of all sizes, and I think what it means to be part of the Commerce Department versus an agency that is an independent agency, and indeed, one that has been troubled most recently at that.

So in that light, we hold this hearing this morning, and I look forward to a healthy, good exchange.

[The statement and bill follow:]

OPENING STATEMENT BY THE CHAIRMAN

The Commerce Committee has scheduled a hearing on S. 1848, legislation introduced by my distinguished colleagues Senators John Kerry and Pete Wilson. This bill, along with its House companion H.R. 1769, would greatly expand and strengthen the duties of the Commerce Department's Minority Business Development Agency (MBDA).

Recognizing the need for a special office within the Federal Government which would provide assistance to minority business, MBDA was created by Executive Order in 1969 as part of the Department of Commerce.

MBDA's purpose is to coordinate and implement with other Federal agencies specially designed programs to contribute to the establishment, preservation and strengthening of the Nation's more than 840,000 minority business enterprises.

Today, we are examining legislation to codify authority for the MBDA within the Department of Commerce. That need has never been more critical than now in light of plans by the Reagan administration to transfer MBDA to the Small Business Administration in fiscal year 1989. I should point out that the Administration has, on several occasions, attempted to eliminate the SBA, but the Congress took action to prevent this from happening.

Now the administration proposes to transfer the Government's responsibilities for its minority enterprise development program to an Agency it has repeatedly sought to abolish.

S. 1848 would prevent such a move and keep the MBDA where it is now, in the Department of Commerce. By removing the MBDA from a position of Cabinet-level supervision in Commerce and making it an Agency within an Agency in the SBA, the administration is sending an ominous signal to those minorities who have successfully participated for years in Commerce's programs.

Since its inception 19 years ago, MBDA has assisted in the creation and expansion of more than 350,000 of the 840,000 minority firms in existence. Through Minority Business Development Centers, the MBDA provides minority businesses with critical management, financial, marketing and technical assistance. MBDA is the only Federal agency created specifically to assist the development of minority businesses.

If America is to meet the global economic challenge it is now facing and regain its status as the world's industrial leader, we will need all her people—their talent, their new ideas, their potential for entrepreneurship—to play an active and meaningful part. Successful minority enterprise development is good for the economic progress of all Americans. And I believe a strong MBDA within the Commerce Department is essential to promoting healthy minority enterprise.

100TH CONGRESS
1ST SESSION

S. 1848

To authorize a Minority Business Development Administration in the Department of Commerce.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 4 (legislative day, OCTOBER 16), 1987

Mr. KERRY (for himself and Mr. WILSON) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To authorize a Minority Business Development Administration in the Department of Commerce.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Minority Business Development Act of 1987".

FINDINGS AND PURPOSES

SEC. 2. (a) The Congress finds that—

(1) the opportunity for full participation in our free enterprise system by socially and economically disadvantaged individuals is essential if we are to obtain

social and economic equality for such individuals and improve the functioning of our national economy;

(2) that many such individuals are not participating fully in the economic mainstream because of their identification as members of certain groups that have suffered the effects of discriminatory practices or similar invidious circumstances over which they have no control;

(3) such groups include, but are not limited to, Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, Asian Indian Americans, and other minorities;

(4) it is in the national interest to expeditiously ameliorate the conditions of socially and economically disadvantaged groups;

(5) such conditions can be improved by providing the maximum practicable opportunity for the development of business concerns owned by members of socially and economically disadvantaged groups;

(6) such opportunity cannot be fully realized unless the Federal Government secures the participation and cooperation of the private sector in a joint effort to promote the development of business owned by disadvantaged individuals; and

(7) such effort will result in a more equitable share of productive resources being devoted to business owned by the disadvantaged and will promote a balanced economy and increased competition.

(b) It is, therefore, the purpose of this Act to—

(1) establish an Administration within the Department of Commerce which will promote and administer programs in the private and public sectors to assist the development of business owned by the disadvantaged; and

(2) achieve such development through the conduct of programs which will result in increased access to capital, skilled labor, management, and technology by such business.

DEFINITIONS

SEC. 3. As used in this Act:

(1) The term "Secretary" means the Secretary of Commerce.

(2) The terms "State", "States", and "United States" include the several States, the District of Columbia, the Commonwealth of Puerto Rico, the territories of the Virgin Islands, Guam, and American Samoa, the Commonwealth of the Northern Marianas, and the Trust Territory of the Pacific Islands.

(3) The terms "socially and economically disadvantaged business concerns" and "disadvantaged business" means any for-profit business enterprise which is at least 51 per centum owned by one or more socially and economically disadvantaged individuals; or, in the case of any publicly owned business, at least 51 per centum of the stock of which is owned by one or more socially and economically disadvantaged individuals; and whose management and daily business operations are controlled by one or more of such individuals.

(4) The term "socially disadvantaged individuals" means those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.

(5)(A) The term "economically disadvantaged individuals" means those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged.

(B) The Administrator shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, Asian Indian Americans, individuals found to be disadvantaged by the Small Business Administration pursuant to section 8(a) of the Small Business Act and other individuals belonging to other minority groups which the Small Business Administration may, from time to time, determine to be socially and economically disadvantaged groups pursuant to Public Law 95-507.

(6) The term "Administration" means the Minority Business Development Administration established by this Act.

(7) The term "Administrator" means the Administrator of the Minority Business Development Administration.

(8) The term "agency" means any executive agency as defined in section 105 of title 5, United States Code, and the military departments as defined by section 102 of title 5, United States Code.

(9) The term "public sector" means any State, State agency, political subdivision of a State, or agency of such a political subdivision.

(10) The term "private sector" means any entity which is not in the public sector excluding the Federal Government, its agencies and instrumentalities.

MINORITY BUSINESS DEVELOPMENT ADMINISTRATION

SEC. 4. (a) The Minority Business Development Agency in the Department of Commerce is hereby redesignated and established as the "Minority Business Development Administration". The Administration shall be headed by an Administrator appointed by the President, by and with the advice and consent of the Senate. The Administrator shall be compensated at the rate now or hereafter provided for level IV of the Executive Schedule and shall have responsibility for the administration of this Act.

(b) Within one hundred and twenty days after the effective date of this subsection, the Secretary shall inform appropriate committees of both the Senate and House of Representatives of—

(1) the organizational structure established within the Administration;

(2) the organizational position of the Administration within the Department of Commerce; and

(3) a description of how the Administration shall function in relation to the operations of other agencies within the Department.

TITLE I—MARKET DEVELOPMENT

PRIVATE SECTOR

SEC. 101. (a) It shall be the duty of the Administration and it is hereby empowered, whenever it determines such action is necessary or appropriate—

(1) to assist disadvantaged business concerns penetrate domestic and foreign markets by making available to such concerns, either directly or in cooperation with private sector organizations, capital, management, and technical assistance, a skilled labor pool and financial and marketing services; and

(2) to encourage disadvantaged firms to establish joint ventures and projects either among themselves or in cooperation with public or private sector organizations for the purpose of increasing the share of any market activity now being performed by disadvantaged business.

(b) In order to carry out the purposes of this section, the Administration is hereby authorized to provide financial assistance in the form of contracts, grants, or cooperative agreements to and with public and private sector organizations, including any association, business firm, trade association, or business organization.

PUBLIC SECTOR

SEC. 102. (a) It shall be the duty of the Administration and it is hereby empowered, whenever it determines such action is necessary or appropriate—

(1) to consult and cooperate with State and local governments for the purpose of leveraging local resources to promote the position of disadvantaged business in the local economy, including, but not be limited to, assisting such governments to establish—

(A) procurement programs and goals for the utilization of disadvantaged business,

(B) management and technical assistance programs,

(C) financial and marketing assistance programs, and

(D) an informational program designed to inform local disadvantaged business of the availability of programs conducted under the authority of this section, and

(2) to confer with and advise leaders and officials of State and local governments for the purpose of recommending and promoting local administrative and legislative initiatives needed to advance the position of disadvantaged business in the local economy.

(b)(1) In order to carry out the purposes of subsection (a) the Administration is hereby authorized to provide financial assistance to State and local governments in the form of contracts, grants, or cooperative agreements.

(2) When allocating financial assistance among the several States (and cities within such States) pursuant to paragraph (1) the Administration shall only consider the relative—

(A) populations of disadvantaged individuals;

(B) numbers of disadvantaged businesses; and

(C) unemployment rates of disadvantaged individuals.

(3) At least one hundred and twenty days before the beginning of each fiscal year, the Administration shall publish for public comment in the Federal Register the actual or anticipated amount of financial assistance that will or may be available in the immediately succeeding fiscal year for grants, contracts and cooperative agreements planned to be awarded pursuant to this section. Such publication shall also identify the proposed allocation of funds between the several States (and cities within such States) and the exact methodology used by the Administration to make such proposed allocations.

(4) At least sixty days prior to the beginning of each fiscal year, the Administration shall publish in the Federal

Register its response to comments received pursuant to paragraph (3) and any change in the allocation methodology which may be adopted as a result thereof including its effect on the allocation of funds on the several States (and cities within such States) for the immediately succeeding fiscal year.

TITLE II—CAPITAL FORMATION

ACCESS TO EQUITY CAPITAL

SEC. 201. (a) The Administration is hereby authorized to defray all or part of the costs of pilot or demonstration projects conducted by public or private organizations which are designed to assist disadvantaged business in obtaining access to equity capital.

(b) The Securities and Exchange Commission shall consult and cooperate with the Administration in an effort to promote access by disadvantaged business to securities markets and otherwise achieve the purposes of this title.

REVOLVING FUND

SEC. 202. (a) There is hereby established within the Treasury a revolving fund which shall be available to the Administration, without fiscal year limitation, for financing functions performed pursuant to this section. All amounts received by the Administration by reason of this section shall be deposited in the fund. All expenses, including administrative expenses, pursuant to operations of the Administration under this section shall be paid from the fund.

(b) For the purpose of obtaining capital for the revolving fund established pursuant to subsection (a), the Administration is hereby authorized to accept or acquire, in any lawful manner, any gift, donation, bequest or contribution from any source whatsoever.

(c)(1) The Administration is hereby authorized to use the proceeds of the revolving fund established under this section to provide financial assistance to qualified disadvantaged business concerns by purchasing equity investments in such concerns. Such financial assistance may be provided to a qualified disadvantaged business concern only if the Administration determines—

(A) the type and amount of such assistance requested by such concern is not otherwise available on reasonable terms from other sources;

(B) with such assistance such concern has a reasonable prospect for operating soundly and profitably within a reasonable period of time;

(C) the proceeds of such assistance will be used within a reasonable time for plant construction, conversion or expansion, including the acquisition of real property; or to finance the acquisition of equipment, facilities, machinery, supplies, or materials; or to supply such concern with working capital to be used in the manufacture of articles, equipment, supplies, or materials for defense or civilian production or as may be necessary to insure a well-balanced national economy;

(D) such assistance is of such sound value as reasonably to assure that the terms under which it is provided will not be breached by the business concern; and

(E) the salaries and other compensation of individuals within the employ of such concern are not unreasonable with respect to services actually rendered.

(2) The amount of equity investments purchased by the Administration and outstanding at any one time from any qualified disadvantaged business concern (including its affiliates) shall not exceed $2,000,000.

(3)(A) For the purpose of this section the term "qualified disadvantaged business concern" means any disadvantaged business which is, and will remain during the term of such financial assistance, engaged in a manufacturing or production activity which has a high growth potential. In determining high growth potential, the Administration shall take into account the extent and rate at which such activity—

(i) may expand employment;

(ii) may produce increases in the gross receipts of such activity;

(iii) may develop or utilize technological innovation; and

(iv) may create, expand or satisfy domestic or international markets for the product or products produced by such activity.

(B) For the purpose of this section, the term "equity investments" means—

(i) nonvoting stock (or other corporate securities having similar characteristics) which contain such dividend rate and terms pertaining to liquidation and redemption as the Administration deems appropriate;

(ii) any ownership interest in any disadvantaged business which is not a corporation (including any limited partnership interest or share in a syndicate, business trust, joint stock company or association, mutual corporation, cooperative, or other joint venture for profit) if such interest does not entitle the Administration to vote or otherwise participate in the management of such concern and contains such other terms and conditions as the Administration deems appropriate; and

(iii) any right to acquire any security or interest described in (i) and (ii) but only if such right is purchased in connection with a purchase under (i) or (ii).

(d) Notwithstanding any other provision of law, any gift, donation, bequest or contribution from a private sector source which is accepted by the Administration pursuant to subsection (b) shall be deemed to be a charitable contribution to the United States made for exclusively public purposes.

TITLE III—MANAGEMENT EDUCATIONAL DEVELOPMENT

DUTIES OF THE ADMINISTRATION

SEC. 301. It shall be the duty of the Administration and it is hereby empowered, whenever it determines such action is necessary or appropriate to—

(1) promote and assist the education and training of disadvantaged individuals in subjects directly related to business administration and management;

(2) join with and encourage accredited colleges and universities, leaders in business and industry, or other public or private entities to develop programs to offer scholarships and fellowships, apprenticeships, internships, and to sponsor seminars and conferences, and similar activities related to business for the benefit of disadvantaged individuals;

(3) stimulate and accelerate curriculum design and improvement in support of disadvantaged business development; and

(4) encourage and assist private institutions and organizations and State and local government agencies to undertake similar activities.

TITLE IV—RESEARCH AND INFORMATION

DUTIES OF THE ADMINISTRATION

SEC. 401. (a) Not later than one year after the effective date of this subsection, the Administration shall submit to the Congress a report detailing the types and amounts of productive resources (both public and private) needed to advance and represent disadvantaged business at all phases and levels of the economic system in numbers that would have existed were it not for past discrimination. The report shall provide separate information for achieving the condition described in the preceding sentence predicated on the basis of a ten-year program, a fifteen-year program, and a twenty-year program.

(b)(1) In order to achieve the purposes of this Act, the Administration shall—

(A) collect and analyze data, including, but not limited to, the causes for success or failure of businesses owned by the disadvantaged,

(B) perform evaluations of private and public sector programs designed to assist the development of disadvantaged business; and

(C) conduct research, studies, and surveys of economic conditions generally and how such conditions particularly affect the development of disadvantaged business.

(2) The Administration is hereby authorized to provide financial assistance by contract, grant, or cooperative agreement to public and private organizations to assist the Administration in carrying out the provisions of paragraph (1).

(3) The Administration is hereby authorized to—

(A) develop and maintain, on a current basis, a data bank on disadvantaged business, except that—

(i) such activity shall be conducted in cooperation and consultation with the Associate Administrator for Minority Small Business and Capital Ownership Development of the Small Business Administration, and

(ii) such data bank does not duplicate the information stored or capable of being stored by the procurement automated source system (PASS) maintained by the Small Business Administration; and

(B) establish and maintain an information clearinghouse for the collection and dissemination of demographic, economic, financial, managerial, and technical data pertinent to disadvantaged business and, to this end, to take such steps as the Administration may deem necessary and desirable to search for, collect, classify, coordinate, integrate, record, and catalog such information.

TITLE V—ADMINISTRATIVE AND MISCELLANEOUS POWERS OF THE ADMINISTRATION

ADMINISTRATIVE POWERS

SEC. 501. In performing the duties under this Act, the Administration is authorized to—

(1) adopt and use a seal for the Minority Business Development Administration which shall be judicially noticed;

(2) hold hearings, sit and act, and take testimony as the Administration may deem advisable;

(3) acquire in any lawful manner any property as the Administration may deem necessary or appropriate to conduct the activities authorized in this Act;

(4) make advance payments under grants, contracts, and cooperative agreements;

(5) donate without cost (except for costs of care and handling) for use in any Federal, State, or local government or in any recipient nonprofit organization for purposes of the development of disadvantaged business any real or tangible personal property acquired by the Administration under this Act. The Administration may impose reasonable terms, conditions, reservations,

and restrictions upon the use of any property donated under this section;

(6) enter into agreements with other Federal agencies;

(7) employ experts and consultants or organizations thereof as authorized by section 3109 of title 5, United States Code, to compensate individuals so employed at rates not in excess of the per diem rate authorized for GS–18 of the General Schedule, including traveltime, and allow them travel expenses (including per diem in lieu of subsistence) while away from their homes or regular places of business, as authorized by section 5703 of title 5, United States Code, for persons in the Government service employed intermittently, while so employed: *Provided, however,* That contracts for such employment may be renewed annually;

(8) sue and be sued in any court of record of a State having general jurisdiction or in any United States district court, and jurisdiction is conferred upon such district court to determine such controversies without regard to the amount in controversy; but no attachment, garnishment, or other similar process, mesne or final, shall be issued against the Administration or its property. Nothing herein shall be construed to except the activities under this Act from application

of sections 507(b), 517, and 2679 of title 28, United States Code; and

(9) prescribe such rules, regulations, and procedures as the Administration may deem appropriate to carry out the provisions of this Act.

AUDITS

SEC. 502. (a) Each recipient of assistance under this Act shall keep such records as the Administration shall prescribe, including records which fully disclose the amount and the disposition by the recipient of the proceeds of such assistance, the total cost of the undertaking for which such assistance is given or used, the amount and nature of that portion of the cost of the undertaking supplied by other sources, and such other records as will facilitate an effective audit.

(b) The Administrator, the Inspector General of the Department of Commerce, and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access for the purpose of audit, investigation, and examination to any books, documents, papers, records, and other materials of the recipient which are pertinent to the assistance received under this Act.

(c) Not later than July 1, 1988, the Comptroller General of the United States shall conduct a thorough review of the programs authorized by this Act and shall transmit to the Congress a detailed report of the Comptroller's findings, including therein an evaluation of the effectiveness of the programs authorized to achieve the purpose of this Act, a description of any failure to comply with the requirements of this Act, and recommendations for corrective legislative or administrative action.

ANNUAL REPORT

SEC. 503. The Administrator shall, not later than one hundred and twenty days after the close of each fiscal year. submit to the President and to the Senate Committee on Commerce, Science and Transportation and the House Committee on Energy and Commerce a full report of the Administration's activities hereunder during the previous fiscal year. Such report shall include a detailed assessment and accounting of all actions taken or planned to be taken under the competitive grants program including, but not limited to—

(1) the number of competitive grants awarded;

(2) the delay, if any, that occurred in the awarding of such grants;

(3) the reason for such delays;

(4) any corrective actions taken by the Administrator in response to such delays;

(5) the number of awards backdated;

(6) the number of grants in which delays in awards resulted in breaks in service, the range of such breaks in service, the frequency of occurrences in

breaks in service, and any changes in grantees after breaks in service; and

(7) any recommendations the Administrator considers appropriate for legislation to improve the competitive grants process.

The Administrator shall make recommendations considered appropriate for legislation to promote the purposes of this Act. The Administrator shall consult with agencies of the Federal Government involved in minority business enterprise in order to develop such recommendations.

AUTHORIZATION FOR APPROPRIATIONS

Sec. 506. There are hereby authorized to be appropriated such sums as may be necessary and appropriate to carry out the provisions and purposes of this Act other than those for which appropriations may from time to time be specifically authorized.

TERMINATION OF AUTHORITY UNDER EXECUTIVE ORDER NUMBERED 11625

Sec. 507. Beginning on the date of the enactment of this Act, the powers and duties of the Administration shall be determined without regard to Executive Order Numbered 11625.

Senator **Kerry**. Our first panel, we welcome the Honorable Donald Clarey, who is the Deputy Administrator of the Small Business Administration.

And am I correct, is Mr. Gonzales here or going to be here?

Why do you not join him?

Thank you.

So gentlemen, if you would simply identify yourselves for the record. Needless to say, it is always easier if you can summarize for us. Your full texts can easily be made part of the record, and needless to say, in the interests of time as well, I think, clarity, it is sometimes helpful just to have you lay it out in simple terms.

Mr. Clarey, why do you not start?

STATEMENT OF DONALD A. CLAREY, DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. **Clarey**. Thank you, Mr. Chairman.

My name is Don Clarey. I am the Deputy Administrator of the SBA.

It is a pleasure to be here today to discuss S. 1848, a bill which provides statutory authority for the Minority Business Development Administration in the Department of Commerce. I am also going to address the administration's proposal to transfer these functions of MBDA to the Small Business Administration.

First, we do not believe it is necessary to establish a second permanent agency with the same legislative mandate that already presently exists within SBA. As the committee knows, the Minority Small Business Capital Ownership Development Program of the Small Business Administration was enacted under Public Law 95-507. Consequently, we feel that the legislation proposed will merely duplicate that effort.

The fiscal year 1989 budget proposes that the agency be transferred by executive order, and that all the MBDA authority currently found in the Executive Order 11625 be transferred *in toto* to the SBA. We believe this proposal will allow much more effective and efficient delivery of the services at issue.

We must therefore oppose S. 1848, and I have attached to my remarks our views on the proposed legislation.

Let me share with you briefly why the transfer we favor would be beneficial to the minority small business community. First, after an in-depth examination of the operation of the MBDA program and the MSB/COD program, and after reviewing numerous studies of both programs, including last year a study of the 8(a) graduates conducted by the Senate Small Business Committee, a further study that Administrator Abdnor requested conducted by the National Academy of Public Administration on the entire 8(a) program of MSB/COD, and yet another extensive review of the MBDA program conducted by the Inspector General of the Department of Commerce it became clear that neither program in its separate operation is providing the comprehensive service for the minority small business community desired by the President.

Therefore, the administration is proposing that these two programs be combined so there will be a single agency manager for these affairs.

There are several advantages to this idea. First, a significant concentration of Federal resources to address the problems of minority-owned small businesses and minorities wishing to enter business would be established in one Federal agency with one administration official responsible to the President and Congress. This unification would provide a coordinated and coherent program of assistance with clear policy and administrative processes, and clear levels of accountability.

Second, this concentration of resources would provide an opportunity to broaden the MSB/COD and the MBDA programs to begin to fully serve the approximately 600,000 minority-owned small businesses that are not now being fully served by either program. Management and technical assistance essential to the success of all small business needs to be available to all minority businesses without regard to location, type of business or the need to cater to parochial constituencies.

Combining the two programs so that real and vital services can be provided will be of great benefit to all minority-owned small businesses.

Third, the 8(a) program of the MSB/COD has dealt successfully with enlarging the share of Federal procurement dollars going into minority-owned firms. However, he program has not been able to successfully make use of its legislative authority to provide sufficient business development assistance to participating firms due to lack of resources. The addition of both grant authority and personnel would provide the opportunity to redirect the 8(a) program towards its primary purpose which is business development.

Fourth, using existing SBA field offices and MBDA centers, the program for minority small businesses would be restructured under this merger to furnish national coverage so that necessary assistance could be within easy reach of all minority-owned businesses. The SBA's fully staffed district offices are equipped to promote, direction and required oversight as needed.

It would serve no purpose to have MBDA transferred to SBA, leaving two free-standing, permanent agencies. While, in fact, that would be the approach for the first year, we would be working to merge the two so that we would have a single effective service for all minority small businesses in the community.

Our strength is the SBA's field organization that provides the basic mechanism and rationale for effective combination of the two programs. We would retain the Minority Small Business Development Centers of MBDA and substantially strengthen each by integrating them with the SBA's ten regional offices and our extensive field operations of over 60 offices throughout the country. In addition, personnel would be located in the agency's regional offices to provide the management and continued oversight necessary to make the MBDA centers more effective.

Increased staff for the SBA district offices will provide increased outreach and services to minority small businesses in each state. Increased staff at both the district and the regional SBA level will also strengthen the operation of the 8(a) program.

The process of integration of the two programs at the budget level would begin the first year, with the merger of 7(j) funds and the resources of the MBDA centers. A new budget would be established at the end of the first year, reflecting the cost savings of the merged operations. Procedures for combining the two grant authorities and the establishment of a new budget would occur not later than six months after the merger is effective.

SBA and the Commerce Department are committed to minimizing the disruption of personnel as a result of the consolidation and transfer. During Fiscal Year 1989, while the transition is taking place, SBA will continue to fund the operation of the MBDCs and the Indian Business Development Centers under the same terms and conditions as previously administered by MBDA. The MBDC cooperative agreements that expire before February 1989 and in subsequent years will be awarded by SBA on the basis of appropriate appraisals conducted by SBA.

Mr. Chairman, a lot of careful consideration has been given to this issue by the administration over the past several years. We realize there will be those who oppose such a merger, but the consolidation of MBDA's programs with SBA's programs can only provide a more efficient, less costly service to our minority business owners.

This concludes my statement, and I will be pleased to answer any questions you or any other committee member may have.

[The attachment referred to follows:]

COMMENTS ON S. 1848

Title I of the bill concentrates on the development of domestic and foreign markets for disadvantaged businesses. Although more specific in its content, this title is fairly consistent with existent authority under which MBDA operates to provide management and technical assistance to enhance the market shares of disadvantaged firms. It also encourages an active role in joint venturing by disadvantaged businesses and public or private sector organizations for that purpose, and authorizes the provision of financial assistance to facilitate market development.

In addition, title I would also encourage consultation and cooperation with State and local governments by the administration for purposes of promoting disadvantaged businesses in a wide variety of areas such as procurement, management and technical assistance, finance and marketing. It also sets forth a mechanism for the provision of grant, cooperative agreement and contractural financial assistance to State and local governments by the administration for the same purposes.

Title II of the bill is designed to enhance the ability of disadvantaged businesses to obtain equity capital. It authorizes the administration to defray the costs of projects conducted by public or private organizations to assist in this effort. This is a new grant of authority not presently available to MBDA. The title also establishes a revolving fund available for investment by the administration in disadvantaged businesses. SBA has historically opposed governmental equity investment in any businesses for policy reasons.

Title III of the bill would authorize the administration to promote and assist the education and training of disadvantaged individuals in subjects related to business management and administration through cooperation with academic institutions and private organizations, as well as State and local governmental organizations.

Title IV of the bill would require a report within one year of the effective date of subsection 401(A) to Congress by the administration regarding the type and amounts of resources needed to assist disadvantaged businesses at all levels of the economy to obtain the position they would have attained were it not for discrimination. It would authorize the expenditure of funds by the administration with public or private organizations by grant, contract, or cooperative agreement to obtain the information necessary to compile that report. This is also a new grant of authority not presently available to MBDA.

In addition, title IV would also authorize the administration to develop a data bank on disadvantaged businesses and maintain a clearinghouse for the collection and discontinued or specified information pertinent to disadvantaged businesses.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR KERRY AND THE ANSWERS THERETO

QUESTION

In your testimony, you suggest that S. 1848 duplicates Public Law 95-507. Can you cite Specific examples of this duplication?

How is SBA's legislative mandate the same as MBDA? Isn't the SBA mandate to assist small businesses, while the MBDA mandate is to assist all minority-owned businesses-companies owned and operated by ethnic minority Americans? Where is the similarity in the legislative mandate?

RESPONSE

SBA - "Section 201 - A - that the opportunity for full participation in our free enterprise system by socially and economically disadvantaged persons is essential if we are to obtain social and economic equality for such persons and improve the functioning of our national economy----"

MBDA - "Section 2 (a) (1) - the opportunity in our free enterprise system by socially and economically disadvantaged individuals is essential if we are to obtain social and economic equality for such individuals and improve the functioning of our national economy----"

SBA - "Section 201 - Sec (e) (1) (B) - that many such persons are socially disadvantaged because of their identification as members of certain groups that have suffered the effects of discriminatory practices over which they have no control;

SBA - "Section 201 - Section (e) (1) (C) - that such groups include, but are not limited to, Black Americans, Hispanic Americans, Native Americans, and other minorities:

MBDA - "Section 2 (A) (2) (3) - such groups include, but are not limited to, Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, Asian Indian Americans, and other minorities:"

Without quoting large portions of the legislation for SBA's MSB-COD program and the proposed legislation to establish MBDA, it is clearly apparent that duplication of purpose and scope of involvement between the two organizations is a program fact.

QUESTION

While the majority of all minority firms are small, isn't it true that SBA programs serve only about 3,000 minority firms -- most of whom are participants in your 8(a) program? MBDA, on the other hand, assists nearly 15,000 minority business clients annually.

RESPONSE

Though SBA prides itself on service to 8(a) certified firms, SBA's various business development and loan programs reach out to the larger minority community, beyond the 3,000 minority firms in the Agency's 8(a) portfolio. For example, in FY '87 SBA's Business Development programs consisting of Small Business Development Centers, Service Corps of Retired Executives, Active Corps of Executives, and Small Business Institutes provided business counseling services to over 34,000 minority clients, and training services for 69,000 prospective and active minority small business owners. Furthermore, in FY '87, SBA's 7(j) development assistance program provided over 5,000 counseling days to minority business owners, half of whom were non-8(a) certified businessowners. The 7(j) program also entered into cooperative agreements with a wide range of businesses, trade associations, and local governments for specialty technical assistance and training conferences, public-private business development partnerships, and advocacy initiatives. In the financing field, SBA since 1977 has approved over 44,000 business loans with aggregate dollar value over $3,617,681,000.

QUESTION

How would you characterize SBA's reputation among the minority business community?

RESPONSE

We would characterize SBA's reputation among the minority business community as good, bad and indifferent. SBA's reputation is considered excellent among those minority business persons who have applied for and received SBA program assistance.

SBA's reputation is probably considered bad by those who have applied for and been unable to receive SBA program assistance.

Those business persons in the minority business community who do not have a need for SBA program assistance or who have never applied are indifferent.

QUESTION

Can you cite specifics as to the small number of clients assisted by MBDA in relation to federal dollars spent?

RESPONSE

The Office of Inspector General of the Department of Commerce issued a Review of MBDA's Minority Business Development Center Program in late 1984. That report cited long-standing errors and misstatements of results from the Minority Business Development Centers activities. Considerable attention was devoted to the methods of funding of center, geographic allocation of funds and organizational structure that reinforced the ineffectiveness of the program.

The report stated that claimed accomplishments of the program were not supported by program data and that administrative costs continued to exceed the substantial funds devoted to delivery of service to the minority business community. Comprehensive changes were recommended by the report, not only in terms of reporting and evaluating procedures but in organization and allocation of funds. While some improvements may have been made in the reporting and evaluating areas, the organizational structure and allocation of funds process has remained the same. It is, therefore, reasonable to assume that the same overweighting of administrative costs to delivery of services continue in the operation of the program.

QUESTION

MBDA is engaged in extensive advocacy and outreach activities to expand economic opportunities for minority firms in the private sector--especially with major private corporations. This is done with the assistance of the National Minority Supplier Development Council, which MBDA funds. In fact, minority firms today are receiving more than $10 billion in business from major and medium-sized corporations as the direct result of the MBDA program initiatives with the private sector. What is the SBA's track record in stimulating new business opportunities for minority-owned firms with the private sector?

RESPONSE

The Small Business Administration has, over the years, recognized the fine track record that MBDA has established with the Minority Supplier Development Council, one of its funded organizations. To this end we have entered into an interagency agreement for the past three years which permits us to refer to MBDA, SBA's minority small business clients for private sector marketing assistance services from its funded organizations including the National Minority Supplier's Development Council.

Additionally the agency has enrolled as of march 1988, 23,729 minority small businesses in its Procurement Automatic Source System (PASS). Pass is a computerized service for private sector firms, and federal, state, and local government agencies who routinely seek out minority small business concerns with whom to do business. Over the past 30 months 5,600 minority owned business concerns were referred to these purchasing activities.

PASS has been selected as the first source for small business subcontractors identification by the principal federal government prime contractor. During FY '83, '84, and '85, federal prime contractors subcontracted a total of $4 billion of goods and services with minority owned small businesses. We expect the amount of minority subcontracting by federal prime contracts to show significant increases as a result of increased experience on the part of both the federal prime contractors and minority subcontractors and the increase opportunities for such contracting afforded by PL 99-661.

The agency has 32 Commercial Market Representatives whose responsibility is to assist private sector federal contractors meet their socially disadvantaged subcontracting goals required by section 8(d) of the Small Business Act.

QUESTION

Is it not true that while the study of 8(a) graduates you alluded to by the Senate Small Business Committee indicates that most 8(a) graduates remain in business, these same companies are experiencing great difficulty in acquiring new business opportunities in the private sector--as well as from government agencies--after they have graduated from the 8(a) program?

RESPONSE

Yes, it is true that the Senate Small Business Committee study of the 8(a) graduates, records their opinion of their business experience after 8(a) as being difficult. However, when any firm changes its market from a non-competitive market, as is the program, to a competitive market, that firm will experience difficulties. The test, however, is whether the firm's basic experience in the 8(a) non-competitive market area adequate to sustain the firm during its transition from a non-competitive to a competitive market. The silent assessment of this, in the Senate report, is that those firms who are still in business were in fact, completing the difficult transition.

QUESTION

How do you respond to the criticism that SBA lacks the sensitivity among its personnel to serve as the lead federal agency for minority business development assistance because SBA's primary focus is small business, and for that reason, federal assistance to minority-owned firms will suffer?

RESPONSE

SBA has viewed its minority business development assistance program as a pilot effort to address small business problems never before addressed by any federal agency in the history of the nation. From 1968 thru 1979, the vast majority of new creative SBA programs to assist the small business community generally, had as their genesis, programs created in the minority small business development office.

The personnel of SBA are no different than any other federal agency's personnel in that the acceptance of change is not an easy process. Minority Small Business Development has proven to be the most dynamic program ever administered by SBA or any other federal agency. These dynamics result in a responsive but constantly changing program. A constantly changing program continually challenges those persons responsible for its administration. This challenge is often misinterpreted as a lack of sensitivity.

We are, however, presently studying the creation of an orientation program for all SBA personnel which should ease the acceptance of the change process and instill an appreciation for the dynamic processes of the minority business programs.

QUESTIONS OF SENATOR DANFORTH AND THE ANSWERS THERETO

QUESTION

MBDA was created in part to focus a single agency's resources on the development of minority businesses. What type of signal does the transfer send about the Administration's commitment to minority business?

RESPONSE

The transfer sends a very positive signal about this Administration's commitment to the minority business community. The merger of MBDA with the SBA's MSB-COD program will provide for a coordinated and coherent program of assistance to the more than 600,000 minority entrepreneurs throughout the nation. The concentration of resources will provide an opportunity to broaden both the MSB-COD and MBDA programs, thereby serving the minority business community in more expanded and substantial ways than either program has been able to do operating separately.

Management and technical assistance, essential to the success of all small businesses, needs to be available to all minority owned businesses without regard to location, types of business, or the need to cater to parochial constituencies. Combining the two programs so that real and vital services can be provided will be of great benefit to our important constituency, the minority business owner this administration is pledged to serve.

QUESTION

What services can SBA provide to minorities that MBDA does not now provide?

RESPONSE

SBA has the programs and an extensive supporting field system to provide services and coverage not available through MBDA. These include:

- Business Loans;
- 8(a) Government Contracting Program;
- Procurement Assistance;
- Business development counseling and training services which offer national coverage are provided by Small Business Development Centers, Service Corps of Retired Executives, Active Corps of Executives, Small Business Institutes, and 7(j) Development Assistance;
- Advocacy -- We recognize that MBDA has an advocacy contracting program for minorities. The SBA Office of Advocacy's mandate is significantly broader than minority contracting. It encompasses legislative and economic issues which impact on all small businesses and actively represents the interests of small business both nationally and locally. Independent research and studies contribute to the wealth of expertise which the Office of Advocacy brings to bear on current small business issues.
- Surety Bond guarantees.

QUESTION

What kinds of minority firms now receiving assistance from MBDA would not receive the same services if MBDA is transferred to SBA?

RESPONSE

Those minority business clients requesting management and technical assistance that do not meet SBA size standards will not be eligible to receive SBA assistance.

QUESTIONS OF SENATOR WILSON AND THE ANSWERS THERETO

QUESTION

One of the Administration's arguments used to support the transfer of MBDA to SBA is that a duplication of effort exists between the agencies. What kinds of "hands on" assistance does SBA currently provide to minority businesses which are not enrolled in the 8(a) program?

RESPONSE

The Agency has long served the minority business community other than those firms enrolled in the 8(a) program. For example, Small Business Development Centers, operating out of more than 600 centers nationally, the SCORE and ACE program and the Small Business Institute program provided business counseling services to over 34,000 minority clients and training services for 69,000 prospective and active minority small business owners in 1987. SBA's 7(j) development assistance program provided over 5,000 counseling days to minority business owners, half of whom were non-8(a) certified business owners.

The Agency's financing, Surety Bond Program, 503 economic development program and others have provided substantial assistance to the minority business community and continue to do so through our 67 district offices and 10 regional offices.

QUESTION

Over the years, MBDA has developed an extensive data base for minority enterprise. It is my understanding that this data base is currently used by MBDC operators to direct clients to appropriate market opportunities or to identify franchise opportunities. What kind of data base does SBA have established presently to compliment those of MBDA?

RESPONSE

The SBA's Procurement Automated Source System (PASS) compliments MBDA's capabilities described above and uniquely goes several steps further. It establishes direct interface between minority small business (MSB) and the buying activity. The PASS terminal distribution system is located in major private sector firms, and federal, state and local government buying offices who routinely seek out MSB concerns with whom to do business. This electronic accessibility to MSB is fast and efficient because PASS provides a company capability profile on each registrant directly to the querying party. This system eliminates multiple referral calls and time consuming legwork on the part of the buyer.

QUESTION

As you know, there has recently been considerable debate about the effectiveness of SBA's 8(a) program. What were the findings of the recent study of the 8(a) program which was performed by the National Academy of Public Administration?

RESPONSE

National Academy of Public Administration (NAPA) study found:

1. Long history of slow progress
2. Inadequate share of resources
3. Need for enhanced workforce effectiveness.
4. Need for effective coordination with other programs.
5. Need for management data which is current, accurate and complete.
6. Need for strong, top-to-bottom leadership.

In responding to the NAPA study, the Agency has moved rapidly to make changes in implementing recommendations from the Report. For example:

1. Top-level management changes have been made to strengthen the total program at the Central Office level.

2. A comprehensive training program has been designed to improve the skills of Business Opportunity specialists responsible for delivery of the program at the district office level. The program begins in June and will cover the entire field MSB-COD staff.

3. Steps are underway to staff an office of Data and Systems Management to provide not only credible information from the program's operation but quality control for ongoing validity of management information.

As resources and budget constraints allow, further implementation of the NAPA report will be instituted.

The NAPA study also highlighted accomplishments within SBA that are contributing positively to the MSB-COD program:

1. A well-conceived and organized career training program for the procurement workforce. Historically, 8(a) contracting officials have been the major recipients of this training.

2. The Computerized Internal Control Review (CICR) system has effectively policed procedural aspects of the 8(a) program particularly at the district office level nationally.

3. Recognition by Agency Management (as evidenced by commissioning of the NAPA study) that our primary focus for improvement must be in the areas of internal management and operation.

QUESTION

Please give the Committee a brief history of problems that have existed in the 8(a) program.

RESPONSE

One of the major problems in the 8(a) program is the strong perception that the business development role of the whole program is not as effectively managed by the Agency as is the contracting portion of the program. This emphasis is cited frequently as being responsible for a number of other problems associated with the program such as the lack of success rate of 8(a) companies after graduation. To more effectively promote business development in the broad sense, the Agency has initiated a multi-disciplined training program for its Business Opportunity Specialists (BOS). The combination of enhanced BOS professionalism and emphasis on development of the total business (not just contracting) will result in enduring business successes.

Major image problems of the program are generated when a few 8(a) firms use the contracting system improperly. Although the number of firms that misuse the system or funds is small, the visibility and nature of the program and the political effects of such misuse, result in widespread and lengthy publicity, e.g., Wedtech.

Other perceptions of program problems are "front businesses," Business Development Expense and Advance Payment controls. The renewed emphasis on staff training will offset the control problems associated with extraordinary funding of contracts we believe. This training will include bookkeeping systems for 8(a) staff to use in monitoring the dispersal and recovery of funds based on the company's actual backlog of business and cash flow projections specific to that backlog.

Given the Administration's determination to improve the operation of the 8(a) program and the cooperation and assistance of the Congress as expressed in major reform legislation, many of the internal operating problems of the program are currently being addressed. Some examples are the reduction in processing time for applications to the program, generated by a proposed regionalizing of the application process and strict time schedule, a significant focus on business development, better national marketing for existing 8(a) firms and a reemphasis of the importance of the program to the Agency's small business constituency.

QUESTION

MBDA currently conducts research on minority enterprise. What research studies, if any, has SBA conducted which focus primarily on minority enterprise or related issues?

RESPONSE

The SBA's Office of Advocacy is the principal research and study arm of the Agency with a traditional broad focus on all small business issues. Germane to this narrow question, Advocacy has cofunded with MBDA and the Bureau of Census a major census search which will surface hitherto unavailable data on both minority and women-owned businesses. This data will provide insights for immediate application as well as a springboard for further more narrowly focused research.

QUESTION

What are the eligibility standards for participation in SBA programs? What restrictions exist, if any?

RESPONSE

Generally, to be eligible for participation in SBA's programs, a business concern must be small as defined by the Small Business Act and the implementing regulations, 13 C.F.R. 121. However, each SBA program has eligibility criteria which must be met by its participants.

In order to participate in the Section 8(a) program, the applicant small business concern must be at least 51% owned, controlled and daily managed by one or more individuals who are U.S. Citizens and who are determined by SBA to be socially and economically disadvantaged. Absent evidence to the contrary, the following individuals are considered socially disadvantaged: Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans and Subcontinent Asian Americans. Individuals who are not members of the named groups may establish their social disadvantage on the basis of clear and convincing evidence that they have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities. For purposes of the 8(a) program, economically disadvantaged are socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities, as compared to others in the same or similar line of business and competitive market area who are not socially disadvantaged.

In addition, SBA must determine that the procurement, financial, technical and management support necessary to enable the applicant concern to successfully complete the 8(a) program is available from SBA or other sources. Finally, SBA must find that an otherwise eligible applicant concern is one that with contract, financial, technical and management support will be able to successfully perform subcontracts awarded under the 8(a) program, and which will have a reasonable prospect for success in the private sector.

Brokers and packagers are ineligible for 8(a) program participation, as are debarred or suspended individuals or concerns.

Eligibility for assistance under the Section 7(j) program includes, but is not limited to, small businesses located in urban or rural areas with a high proportion of low-income individuals, or which are owned by such low-income individuals; and businesses eligible to receive contracts pursuant to Section 8(a) of the Small Business Act.

QUESTION

MDBA routinely evaluates and monitors its Minority Business Development Centers for efficiency and effectiveness. Does SBA similarly monitor its district or regional offices for minority small business programs?

RESPONSE

Until recently, Minority Small Business and Capital Ownership Development (MSB&COD) utilized a computerized internal control review (CICR) system to monitor program efficiency and effectiveness and internal controls. The CICR monitoring was performed at the regional level as a responsibility of the Assistant Regional Administrator for MSB&COD. SBA has recently separated the monitoring for program efficiency and effectiveness from internal controls. Internal control reviews are presently being performed by the Office of Program Analysis and Review using a revised form of the CICR instrument. The Office of MSB&COD is presently establishing a new method of program review for efficiency and effectiveness. This method of review will incorporate recommendation number one of the National Academy of Public Administration (NAPA) report which recommendation is as follows:

> Analyze all Portfolio Managers' assignments and the condition of their portfolio at least once each year to enhance their effectiveness and productivity. Utilize peer reviews.

It is anticipated that the new system will be implemented during the first quarter FY 89.

QUESTION

If MBDA was incorporated into SBA, you have said that all MBDA personnel would initially be transferred to SBA. As has been stated previously, MBDA's competitive grants process is labor intensive. In order to operate a successful grants program, current MBDA staff levels would have to be maintained. Do you envision then SBA retaining all MBDA personnel five years after a transfer?

RESPONSE

We envision that in five years the Agency would still have as many or more field staff personnel involved in the program. Central Office staff levels required five years from now are more difficult to predict, with the merger of the MSB and MBDA headquarters groups. We are, however, committed to maintaining the staff necessary to operate a successful program.

QUESTION

Do you have any knowledge of a possible effort by the President to abolish MBDA by executive order this year?

RESPONSE

The President's proposal is to transfer the MBDA program responsibilities and authority to SBA.

Senator **Kerry**. I appreciate that. Thank you very much.

Why do we not hear from Mr. Gonzales, and then we will come back and do a first round of questioning.

STATEMENT OF JAMES H. RICHARDSON GONZALES, DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE

Mr. **Gonzales**. Thank you, Mr. Chairman.

My name is James H. Richardson Gonzales. I am the National Director of the Minority Business Development Agency at Commerce for the last 4 years.

We are pleased that we have the opportunity to be with you today. We have submitted testimony for the record, so therefore I will not read the testimony, but if you will allow me a few minutes just to point out some of the accomplishments that the agency has had, especially during the last four years when I have been Director, it gives us a chance to put out the positive part of the Minority Business Development Agency, which we rarely have a chance to do. I am sure that the administration and you as a committee chairman, the Secretary of Commerce Bill Verity, the late Secretary of Commerce Mac Baldrige or I could not sit back and just express minimum facts.

We are very proud, Mr. Chairman, that our measurement of success at the Minority Business Development Agency is quite significant. We have had, if we were in the private sector, we would call it a return on investment, but since we are in the public sector, we would call it a return on funding. Therefore, I am very pleased to report that our Business Development Center network, approximately 100 of them located in 39 states where we have the major, major minority populations, the major number of minority businesses, and the major number of minority business formations, new starts, that we are able to deliver quite an outstanding variety of services to the minority business community.

Last year alone we serviced somewhere in the vicinity of 14,000 clients out of our Business Development Centers, at a cost to the government, or a return on funding, if I may add that, of $64 for every Federal dollar that was put out in funding. I think that you would agree that this is a significant accomplishment on the part of the government spending, and also the fact that we achieved over $1 billion in procurement for the minority business community, as well as over $800 million in financing for the minority business community.

It is very impressive also to point out the vast array of services, that we are not only limited to loan packaging or to 8(a) certification. We provide a variety of services, the brokering, the technical assistance, management assistance, marketing, administration, personnel, a variety of services that most of the minority services need, and we also provide what we think is an answer to the need of the minority business community in addition to the traditional lack of financial resources, lack of management assistance, and lack of technical assistance of very outstanding, which is an outstanding base of information systems put together by corporate people, not just from consultants, but from people like McGraw-Hill, DRI, and all those companies.

So we feel that our accomplishments in the minority business community have been significant. We would always promote that the needs of the minority business community could be served better by consolidating efforts under one umbrella, and we feel that the needs of the minority business community could be better met.

We will submit written documentation, Mr. Chairman, in the nature of published annual reports on the part of the agency, and we will also do that in addition to my testimony.

In the interest of time, if we could submit to questions, I think it would be more appropriate.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF JAMES H. RICHARDSON GONZALES, NATIONAL DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE

Mr. Chairman and members of the committee, I thank you for the opportunity to present my Agency's views regarding S. 1848, "The Minority Business Development Act of 1987."

Prior to my discussion on this bill, I would first like to offer the committee a short overview of MBDA and its current role in promoting minority business development. I am extremely pleased to report that Federal funding of our Minority Business Development Center's [MBDCs] program is continuing to be an excellent investment. Our MBDC program is designed to increase minority participation in the Nation's free enterprise system through the formation and development of competitive minority-owned and managed firms.

For a nominal fee MDBC counselors advise minority entrepreneurs of the latest tools in marketing, accounting, personnel management, and business training. These MBDCs assist minority enterpreneurs to bid on Government and private procurement contracts and assemble financial packages for submission to lenders. Our program development staff has produced preliminary figures analyzing the return on funding through our MBDC program (including our Indian Business Development Centers). The data indicates that centers procured a $64 to $1 return on funding—an improvement over the 1986 analysis which indicated a $46 to $1 return on funding. For purposes of this analysis, funding includes the average monthly funding during FY 1987. Total dollar performance includes the actual total of approved financial packages, actual procurements, and the dollar value of business management and technical assistance at $50 per hour.

Our public and private sector programs focus on the creation of a receptive environment for minority growth and expansion. Funding is provided to selected public and private sector organizations to conduct activities which increase minority business opportunities, enhance management capabilities in minority entrepreneurs, and increase minority youth awareness of business as a career alternative.

MBDA advocacy, research and information clearinghouse programs collect, maintain, and establish general purpose data on the characteristics of MBDA clients and the general minority business community, and develop special purpose data to support priority programs. Research is conducted to increase awareness of trends, characteristics, and problems of minority business and to raise the level of consciousness of policy-makers and business leaders in their recognition of minority business contributions to the economy. All of the program functions I have just outlined will be transferred to SBA.

In our budget hearing of next week we will request zero funding. It is anticipated that the complete transfer will take effect October 1, 1988. I think it is important to note that all MBDA personnel are expected to be transferred to SBA. No RIFs or cuts in personnel are contemplated.

In light of the administration's proposal to transfer the agency to SBA, the administration must oppose S. 1848. This bill would provide a statutory base for the agency at the Department of Commerce. The FY 1989 budget calls for the transfer of MBDA to SBA in order to streamline programs to minority small businesses.

The proposed transfer should provide these businesses with better access to the programs by consolidating the SBA and MBDA programs under one roof Further, the bill creates a new financing program which is inconsistent with the need for fiscal restraint. The revolving fund used to finance the program also constitutes an earmarking of funds in violation of longstanding Federal policy.

These comments conclude my prepared statement. I thank the committee for the opportunity to express these views, and now I would be happy to answer any questions.

[The following information was subsequently received for the record:]

QUESTIONS FOR JAMES H. RICHARDSON GONZALES
DIRECTOR
MINORITY BUSINESS DEVELOPMENT AGENCY
FROM SENATOR KERRY

1. In your short overview of MBDA, you described several important programs which promote minority business development. Under the Administration's proposal, all of these programs will be transferred to SBA. In your opinion, what would happen to those programs under SBA? What effect will the FY 89 budget goal of streamlining minority small business programs have on MBDA's current program functions?

Answer:

It is impossible to make conjectures as to the fate of MBDA programs transferred to the SBA. However, as we recall SBA's March 3 testimony, SBA will, for a one-year period, leave all of the programs intact, and then decide which programs to keep and which programs to terminate. Yet at a recent hearing before the Senate Committee on Small Business, Administrator Abdnor indicated that MBDA would be absorbed immediately. Therefore, we are uncertain of the fate of MBDA programs. If SBA does provide a one-year period of program analysis, we would certainly hope that our minority business development center (MBDC) program is given ample consideration. As I mentioned in my March 3 testimony, the MBDC program is a very successful vehicle for minority business development. Its most unique feature - "hands-on" management and technical assistance - offers a greater probability of producing successful and competitive entrepreneurs than mere seminars, lectures, or infrequent visitations.

In response to the second part of your question, the effect of streamlining the SBA's minority small business programs will obviously focus the number of resources to which we can refer our minority business clients. Streamlining will likewise give our MBDC operators even more incentive to rely on the resources of the local marketplace; especially in the banking and financial community, because so many minority businesses and entrepreneurs continue to view the Federal Government as the only source of assistance. Our MBDC operators, however, are capable of orienting minority businesses to other sources of assistance at the state and local level, as well as the private sector. We encourage this orientation because we feel minority business should not be totally dependent upon the Federal Government for its success or growth.

2. As you are aware, S. 1848 establishes mechanisms designed to increase disadvantaged firms' access to capital. In your testimony, you oppose these provisions as inconsistent with the need for fiscal restraint. What recommendations can you make to address the problems faced by minority entrepreneurs whose ability to compete has been impaired due to diminished capital and credit opportunities? What actions does MBDA currently take to provide financial assistance to these entrepreneurs?

Answer:

MBDA believes that private sector initiatives are the best means of pursuing its mandate to increase minority businesses' access to capital and credit opportunities. The Agency has already initiated one effort — the Business Consortium Fund (BCF) — a revolving loan fund which provides working capital to minority businesses at rates slightly below prime. To date, the BCF has raised over $5.7 million in funds and made 12 loans to MBEs at a total loan value of $2,040,000. On the other hand, our MBDC operators reported $610,690,000 in approved loans during FY 1987.

Another capital development initiative under consideration is a pilot effort to provide capital to minority businesses through private sector financial institutions.

Questions for Mr. James H. Richardson Gonzales, National Director, MBDA, from Senator Danforth

(1) What services does MBDA provide to minority firms that SBA does not?

(2) Does MBDA work with other Commerce Department agencies and departments to provide services to minorities? What steps have you or SBA taken to ensure that these same services are continued after the transfer?

Answer to Question 1

The most significant and important differences in the services provided by MBDA and SBA focus clearly on MBDA's minority business development center program, with its wide array of business management and technical services. First, the method of delivery is very different. MBDA, through competitive awards, delivers its services through professional, experienced, non-government contractors whose only goal is the delivery of services. Our contractors provide "hands-on" services and consultation which requires a closer working relationship with the minority entrepreneur or business, and results in a higher probability that the business enterprise can survive in the competitive marketplace, i.e., without continued Government assistance. Our centers also offer assistance in identifying the available financial resources at the Federal, state, and especially the local level, thereby reducing the demand upon Federal resources. Our centers not only identify available procurements and contracts but also offer a broad range of marketing tools to expand the enterprises' capabilities. We consider these services superior to the limited assistance many minority businesses receive from other Government entities to the extent that we receive few complaints from the minority community regarding the delivery of services.

In summary, it should be noted that MBDA has the ability to work with minority entrepreneurs and businesses of all sizes and at any time in the life of the enterprise. MBDA assistance is not restricted to clients in the 8(a) portfolio. MBDA does not impose "graduation" terms upon minority businesses. Rather, the decision to utilize MBDA assistance rests with the degree of initiative within the minority enterprise. MBDA makes a conscientious effort to bring more minority businesses into private sector marketing because of the greater potential to structure and maintain a more competitive enterprise.

Answer to Question 2

MBDA works with several Federal agencies including the Department of Commerce to provide services to minorities. A listing is enclosed.

No agreements have been terminated or transferred to SBA. And, it is not clear to us, at this time, that SBA has called upon other Federal agencies to transfer their agreements because all of our agreements focus primarily upon the ability of the minority business development center network to identify potential minority vendors and to disseminate information regarding contract, grant, and procurement opportunities. You may wish to poll the Federal agencies in question regarding their desire to transfer their agreements to SBA.

Question 3

The Commerce Department's Inspector General Report of April 1, 1987, - September 30, 1987, found that improvements are needed to strengthen the integrity of MBDA's award and renewal process for its centers and that the centers generally had overstated accomplishments, failed to document accomplishments, and failed to meet project goals. Do you agree with the Inspector General's report and what corrective steps have you taken?

Answer

While we agree in part with the improvements needed relative to the documentation of minority business development center (MBDC) accomplishments, we believe that the intensive training program, Agency-wide, begun in 1987 has, in fact, shown strong results relative to the strengthening of the integrity of the MBDA award and renewal process.

Current revisions to the Agency's Request for Application (RFA) have redefined and realigned the priorities and bottom-line required accomplishments for the MBDCs. This action ensures that the centers can effectively be held accountable for the scope of work as identified, including goals and accomplishments.

Question 4

Has any consideration been given to limiting the number of minority business development centers a contractor can operate at the same time?

Answer

Our MBDC program is competitive. We think it would violate the competitive spirit and probably Federal rules and regulations to limit the number of centers which one firm can operate if it competes for more than one and wins the awards.

Question

Is a contractor paid approximately the same if he operates one center or several centers?

Answer

Funding per center depends on the size of the center, which in turn depends on the size of the SMSA regarding minority population, minority business presence and minority business starts. The larger the SMSA, the more money it receives.

The more money it receives, the higher the client goals, billable hours of management and technical assistance, loan packaging and procurement assistance. The following illustrates the above.

	Client Goals	Annual Federal Funding	M&TA Goals	Financial Goals	Procurement Goals
Atlanta, GA	124	$270,000	$138,000	$4,500,000	$9,000,000
Milwaukee, WI	76	165,000	84,000	2,747,000	5,493,000

Fees

$10 per hour for those MBE clients whose firms gross under $500,000 annually.

$17.50 per hour for those which gross more than $500,000 per year.

Question 5

Could you please comment on Title III of S. 1848, Management Educational Development, and MBDA's Success in trying similar programs in the past?

Answer

In 1985, MBDA initiated its Business-Education Government Partnership Program for Economic and Business Development. This program was a segment to the President's program for Education and Business Partnership by moving such alliances into the area of economic and business development.

MBDA's Partnership Program is based on the conviction that minority business can only grow in concert with community growth, and secondly, on the conviction that education has a vital role to play in community economic and business development.

MBDA concurs with the intent of the activities outlined by its partnership program. MBDA has anticipated such activities and deepened the advocacy and outreach thrust.

Against a beginning background of many national, state and local partnership meetings, the Partnership Program has progressed to specific accomplishments and initiatives. Among these are:

- Local Partnerships with business education and government that have resulted in over 80,000 minority youth being involved in business career training and hundreds of minority businesspersons being trained;

- The gathering of Partnership Program tools to support the development and expansion of the Partnership Program, such as the successful negotiation with a publisher for thousands of entrepreneurial manuals (at no cost); the use of computer technology for the development of individualized business plans; overseeing the development of manuals and brochures by the use of the computer network of AACJC to support specific partnerships initiatives.
- The establishment of a Partnership between MBDA, AACJC and the National Minority Supplier Development Council (NMSDC), with particular emphasis on programs for youth that will strengthen future minority procurement by the Fortune 500 and smaller companies.
- The establishment of regional partnerships between community colleges, MBDCs, Historically Black Colleges and Universities (HBCU) and local purchasing councils of the NMSDC; included in this initiative is the strategy to use Sears Foundation grants to facilitate planning.
- The establishment of a Partnership between MBDA and the Administration for Native Americans (ANA) involving the transfer of funds to MBDA to support business training programs for tribes and Native American organizations.
- The establishment of a Partnership for Indian Trade and Tourism directed at Asia and Europe, involving the exporting of Indian artifacts and foreign visitor tourism. This partnership, presently being established, is to include MBDA, ANA, AACJC, Indian BDCs, ITA and NMSDC.

Question 6

Does S. 1848's provision to provide financial assistance to state and local governments create what may be an unworkable formula for the distribution of funds?

Answer

No. On page 9 of the proposed law, section (B)(1) authorizes the Administrator to assist state and local governments, financially, through the forms of contracts, grants, and cooperative agreements. We feel this is the best legal vehicle with regards to paragraph (2).

What state and local efforts exist to develop minority businesses?

Answer

First, most states have an Economic Development Agency or Administration. These states have included minority business development assistance as a function of their economic development arm. Many of these organizations, which were funded by MBDA since their inception, will continue independent operations.

Question 7

In your written statement you state that the revolving capital formation fund created in S. 1848 "is inconsistent with the need for fiscal restraint" and also "constitutes an earmarking of funds in violation of longstanding federal policy". Would you please elaborate?

Answer

We view the revolving capital formation fund referenced in S. 1848 with sympathetic understanding of its intent, because access to capital continues to be a major problem for minority businesses. However, in view the Federal deficit figures and the continuing need to better manage existing resources, we do not advise to hold out to the Nation's 840,000 minority businesses the creation of yet another Federal lending arm; to be certain of limited capabilities. MBDA receives, on a monthly basis, an average of 50 letters from minority entrepreneurs and businesses seeking direct Federal financial assistance. These requests are referred to our MBDC operators because of their knowledge of the availability of Federal, state, and local financial resources. Moreover, the revolving fund contains elements similar to SBA's MESBIC program and the Business Development Expense (BDE).

Finally, we are advised that the revolving loan fund would be created in violation of a long-standing Executive Branch policy, dating back to the Presidency of John F. Kennedy, which frowns upon the creation of separate Government accounts for the exclusive and non-reviewable use of any particular agency or department by circumventing the annual appropriations process.

FROM SENATOR WILSON
QUESTIONS FOR JIM RICHARDSON, DIRECTOR, MBDA

**Please submit to the Committee a detailed accounting of MBDA's role in promoting minority enterprise. If you would, please begin this account with the Agency's inception in 1969.

Answer:

I am not certain how detailed an accounting of MBDA's role in promoting minority enterprise is appropriate or available. However, we do note that the Office of Minority Business Enterprise (OMBE) was created in 1969 by presidential Executive Order 11458 as a response to the concerns of Blacks and other minority groups which felt disenfranchised from the Nation's economic infrastructure. In 1971, President Nixon issued Executive Order (11625) to clearly define the Agency's role as the only Federal Agency specifically created to assist and promote minority business development. Since 1969, MBDA has assisted over 400,000 minority businesses nationwide.

In an effort to strengthen MBDA's programs and to make them more cost-effective and less duplicative of other Federal resources, three major steps were taken: (1) In 1982, MBDA moved its major management and technical assistance program into a competitive status because the minority community wanted the best and most credible provider of services. This move eliminated political intrusion into the selection process and put more management and professional responsibility upon applicants to meet the needs of the minority community; (2) MBDA authorized its MBDC operators to assess a fee for services - beyond initial consultation - which has the effect of filtering out entrepreneurs and businesses genuinely interested in the services of the centers. This move also improved the focus and resources of our centers to work closely with minority business clients who are serious about business development; (3) MBDA put greater emphasis on the availability of procurements and contracts at the state and local level as a means of developing minority businesses in non-Federal markets. The move, coupled with greater emphasis on the use of local financial resources, was made to reduce the stress upon the Federal Government's resources for minority business development.

In 1982, President Reagan charged MBDA and SBA with the formation of at least 60,000 new minority businesses over a ten-year period. In 1983, President Reagan signed Executive Order 12432 to increase opportunities for minority-owned businesses in the U.S. economy. The Executive Order requires each Federal agency with substantial procurement and grant-making authority to develop an annual minority business development plan; to be submitted to Commerce-MBDA. The annual results of these plans are published in reports which were available at the March 3 hearing. Also, in 1983, President Reagan proclaimed the first annual celebration to honor the economic contributions of minority businesses: Minority Enterprise Development (MED) Week. This national celebration brings together hundreds of minority entrepreneurs with Federal, state, local and private sector advocates who actively promote and encourage minority business utilization.

Throughout MBDA's 19 years of service to the Commerce Department and to our country's minority business community, the Agency has vigorously promoted minority business development at both the national and local levels; served as an advocate for the interests of minority entrepreneurs; and provided management and technical assistance services to current and prospective minority businesspersons to facilitate the establishment and growth of successful, competitive, minority-owned and operated firms.

Our MBDCs continue to assist minority entrepreneurs to bid on government and private procurement contracts and assemble financial packages for submission to lenders. Our program development staff has produced preliminary figures analyzing the return of funding through our MBDC program (including our Indian Business Development Centers). The data indicates that centers produced a $64 to $1 return on funding. For purposes of this analysis, funding included the average monthly funding during FY 1987. Total dollar performance included the actual total of approved financial packages, actual procurements, and the dollar value of business management and technical assistance at $50 per hour.

Our public and private sector programs focus on the creation of a receptive environment for minority business growth and expansion. Funding is provided to selected public and private sector organizations to conduct activities which increase minority business opportunities, enhance management capabilities in minority entrepreneurs, and increase minority youth awareness of business as a career alternative.

MBDA advocacy, research and information clearinghouse programs collect, maintain, and establish general purpose data on the characteristics of MBDA clients and the general minority business community, and develop special purpose data to support priority programs. Research is conducted to increase awareness of trends, characteristics, and problems of minority business and to raise the level of consciousness of policy-makers and business leaders in their recognition of minority business contributions to the economy.

Question:

There has been mention in the past about poor administrative control of your agency. Indeed, an Inspector General report indicated that several improvements were needed to ensure the efficient operation of the competitive grant process. It is my understanding that MBDA has begun the improvement process, including an intensive personnel retraining program. Could you please elaborate on your efforts to improve the grants process? Please include any recommendations you have made with respect to ensuring a smooth transition to the new procedures.

Answer:

An Agency reorganization completed in June of 1987 had as its focus the recommended improvements needed to ensure an efficient and timely operation of the competitive grant process. Principally, the new organization provides for the consolidation of all grant processing functions in MBDA into one organization, reporting to the National Director and enabling the Agency to establish effective accountability.

As a result of this initiative and realignment, we were able to improve the fiscal 1987 results relative to the competitive grant process and award actions by 28%, from 70% timely award action in FY 1986 to approximately 98% in FY 1987.

Further, we initiated in Calendar 1987 an intensive in-depth training program for all Business Development Specialists and their supervisors Agency-wide. We have continued this program into the first half of 1988.

Question:

During the final hours of the budget debate last year, Congress eliminated the state and local government program from your budget. This program has assisted minority business by encouraging local government to make purchases from minority entrepreneurs. In your view, what benefits, if any, resulted from this program?

Answer:

Executive Order 11625 authorized MBDA to provide financial assistance to public and private organizations so they could render management and technical assistance to minority firms.

The state and local program has been a permanent program in MBDA that has played a vital role in the Agency's efforts to bring resources from state and local government or other political jurisdictions to concentrate their efforts on MBEs.

Benefits:

Benefits of this program have included, but are not limited to:

1. Facilitated access to a market of approximately 268 billion dollars in the procurement of goods and services annually, a market which vastly exceeds the Federal procurement market of 120 billion.
2. Improved capability for MBEs to serve in the overall public sector, domestic and international markets, consequently reducing dependency on government programs.

Question:

Will you make any effort to identify appropriate funding sources to continue this program's operation?

Answer:

We have experienced some success in identifying other funding sources (funds accretion) to support MBDA program activities and interests. Usually, funds are transferred to MBDA to fund a project that has been identified by the funding source and MBDA. Project activitity and progress are monitored by an MBDA regional office. Some current examples of this process are:

1. HUD/National Association of Real Estate Brokers:

   Project focus is on local economic development opportunities;

2. HUD/World Conference of Mayors:

   Project focus is on probable or potential use of community development block grants to enhance and/or support export trade development.

3. VA/MBDA:

   Focus is to provide support mechanism for selected minority business opportunity committees.

   We are also exploring the opportunity for future funds accretion from both public and private sector's resources, e.g., EDA and EPA.

Question:

That is, what effort will the Agency make to fulfill present commitments to local government?

Answer:

FY 1988 funding commitments are being honored from current budget appropriations.

Question:

Please submit to the Committee a detailed listing of eligibility requirements for participation in MBDA programs.

Answer:

There are no eligibility requirements for firms or organizations that provide services under MBDA programs. Applicants may include individuals, non-profit organizations, for-profit firms, local and state governments, American Indian Tribes, and educational institutions. However, to receive the services of an MBDA program means that the business enterprise is owned or controlled by one or more socially or economically disadvantaged persons. The disadvantage may arise from cultural, racial, chronic economic circumstances or background or other similar cause. Such persons include, but are not limited to, Negroes, Puerto Ricans, Spanish-speaking Americans, American Indians, Eskimos, and Aleuts.

Hasidic Jews, Asian-Pacific Americans, and Asian Indians have also been designated as eligible for assistance. Asian-Pacific Americans include persons having origins from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the U.S. Trust Territories of the Pacific Northern Marianas, Laos, Cambodia, Taiwan, and India. Asian Indians include persons with origins in India, Pakistan, and Bangladesh.

Question:

What services are provided to minority entrepreneurs who visit a business development center?

Answer:

The MBDC provides management and technical assistance (M&TA) to qualified minority firms and individuals, including 8(a) certified firms which are in the final two years of their fixed program participation term. A listing of the management and technical assistance available to minority business is enclosed.

Question:

What fees are charged for services provided?

Answer:

M&TA assistance is of two (2) types: These are:

Initial consultation at no charge, which determines whether the inquirer will become a client of the MBDC.

Specific business assistance on a fee-for-services basis. Such billable assistance includes, but is not limited to, marketing, general management, administration, manufacturing, personnel, construction assistance, finance and accounting.

Fees

$10 per hour for those MBE clients whose firms gross under $500,000 annually.
$17.50 per hour for those which gross more than $500,000 per year.

Question:

What assistance does MBDA provide to those clients that have demonstrated export potential?

Answer:

MBDA's assistance to MBEs that have demonstrated export potential has been through the MBDC network. This assistance has been general in nature — identifying marketing and financial assistance programs, both public and private.

An effort is now underway to have our Business Development Reporting System (BDR) begin tracking the export sales and capital resources generated on behalf of MBDC-assisted companies. Results of the report are expected in FY 1990. Further, research is being conducted into providing direct export market information through the MBDCs to their client organizations. This effort is being undertaken in cooperation with the International Trade Administration.

MBDA is encouraging the participation of minority firms in Secretary Verity's Export Now initiative. Speakers, conferences, success stories, etc., are being coordinated by this office.

Efforts have begun to increase the participation of minority trade associations in the export trading company program. The objective is to establish export trading vehicles for the benefit of minority firms.

**Do you have any knowledge of a possible effort by the President to abolish MBDA by Executive Order this year?

Answer:

It is difficult to respond to the question regarding knowledge of an executive order to abolish MBDA because we have not been provided any written confirmation of this intent. However, we have become aware of a plan to facilitate the move of MBDA which was apparently drafted by SBA. A copy is enclosed. Because we are not aware if this document has been circulated in the Congress or the minority community, it would be inappropriate for MBDA to comment upon its veracity or logic.

Senator **Kerry**. I appreciate that.

Thank you very much, Mr. Gonzales.

I listened to you cite the accomplishments, and I have a long staff-prepared recitation of many of those accomplishments, and I think that they are positive.

I take it you feel you are doing a pretty good job.

Mr. **Gonzales**. I would say so considering what I inherited four years ago, which was a system of funding our Business Development Center consisting of a formula that was assigned to—it was a very disproportionate award formula, and we changed that because I felt that we had to be more equitable. Therefore, we devised a system which I found to be more responsive to the minority needs, that we were able to get away from the traditional funding on a yearly basis that would necessarily make the recipients work eight, nine, or ten months out of the year and spend two months preparing their re-funding packages.

I have changed that formula to where it is a three year period based, of course, on availability of funds, and also on satisfactory performance on the part of the recipient. And we proposed to fund them for a three year period, and that has worked tremendously well, Mr. Chairman. Last year we achieved a 98 percent efficiency level in funding on time, and we are proud of that, and I think it has been more of a very satisfactory service to the minority business community.

Senator **Kerry**. Now, during fiscal year 1986, minority firms received $6.5 billion in Federal procurements, correct?

Mr. **Gonzales**. That is correct.

Senator **Kerry**. And they received $3.3 billion in grants, loans and loan guarantees, correct?

Mr. **Gonzales**. That is correct.

Senator **Kerry**. Do you know how much money the SBA granted minority businesses under 8(a) set-asides?

Mr. **Gonzales**. I have no idea, sir.

Senator **Kerry**. Do you know, Mr. Clarey?

Mr. **Clarey**. We can supply you that figure for the record.

[The following information was subsequently received for the record:]

MBDA ASSISTANCE TO 8(A) CERTIFIED FIRMS

11/10/87

FISCAL YEAR 1987

(OCT86-SEP87)

	NEW YORK	WASHINGTON	ATLANTA	CHICAGO	DALLAS	SAN FRANCISCO	NATIONWIDE
TOTAL 8(A) FIRMS ASSISTED	40	57	78	57	94	145	471
TOTAL HOURS OF MBTA	1,919	2,881	2,501	1,337	3,218	4,510	16,266
NO. FINANCIAL PACKAGES	16	30	58	21	50	72	247
$ FINANCIAL PACKAGES	7,942,850	7,580,889	21,424,073	9,864,922	32,233,483	40,320,835	119,367,052
NO. 8(A) PROCUREMENT CONTRACTS	20	20	33	11	36	33	153
$ 8(A) PROCUREMENT CONTRACTS	19,781,420	7,292,887	17,389,119	15,499,532	22,629,017	31,510,275	114,102,249
NO. NON-8(A) CONTRACTS	98	33	126	65	69	121	512
$ NON-8(A) CONTRACTS	19,875,107	20,135,339	10,256,843	19,136,277	29,778,033	47,396,445	146,578,044

MBDA ASSISTANCE TO GRADUATING 8(A) CERTIFIED FIRMS

11/10/87

FISCAL YEAR 1987

(OCT86-SEP87)

	NEW YORK	WASHINGTON	ATLANTA	CHICAGO	DALLAS	SAN FRANCISCO	NATIONWIDE
TOTAL 8(A) FIRMS ASSISTED	4	7	8	5	9	14	47
TOTAL HOURS OF MBTA	101	696	281	27	543	875	2,523
NO. FINANCIAL PACKAGES	0	18	3	0	4	9	34
$ FINANCIAL PACKAGES	0	4,351,295	848,762	0	4,683,800	1,162,009	11,055,866
NO. 8(A) PROCUREMENT CONTRACTS	2	5	4	0	4	3	18
$ 8(A) PROCUREMENT CONTRACTS	2,596,187	2,958,587	1,113,052	0	1,076,896	759,000	8,103,732
NO. NON-8(A) CONTRACTS	4	13	4	0	13	29	63
$ NON-8(A) CONTRACTS	1,384,063	1,872,614	112,869	0	8,465,169	954,146	12,888,861

MBDA ASSISTANCE TO GRADUATED 8(A) CERTIFIED FIRMS

02/24/88

FISCAL YEAR 1987

(OCT86-SEP87)

	NEW YORK	WASHINGTON	ATLANTA	CHICAGO	DALLAS	SAN FRANCISCO	NATIONWIDE
TOTAL 8(A) FIRMS ASSISTED	3	4	3	1	4	6	21
TOTAL HOURS OF MBTA	19	171	43	0	30	109	372
NO. FINANCIAL PACKAGES	0	0	4	0	4	0	8
$ FINANCIAL PACKAGES	0	0	1,002,125	0	131,867	0	1,133,992
NO. 8(A) PROCUREMENT CONTRACTS	0	0	0	0	0	0	0
$ 8(A) PROCUREMENT CONTRACTS	0	0	0	0	0	0	0
NO. NON-8(A) CONTRACTS	0	2	5	0	5	2	14
$ NON-8(A) CONTRACTS	0	114,131	1,567,125	0	6,113,728	34,349	7,819,333

*8(A)-CERTIFIED FIRMS ARE MINORITY BUSINESSES ASSISTED UNDER THE SMALL BUSINESS ACT, PUBLIC LAW 85-536, AND ELIGIBLE FOR FEDERAL SET-ASIDE CONTRACTS.

Senator **Kerry**. Significantly less than that, is it not?

Mr. **Clarey**. Well, it is certainly less than the figure you cite.

Senator **Kerry**. Can you tell me, Mr. Gonzales, what the range of size was in those businesses that you served?

Mr. **Gonzales**. That is very difficult, Mr. Chairman, because MBDA does not have size standards to contend with as far as services being provided to the minority business community.

Senator **Kerry**. Well, I understand. You serve all sizes.

Mr. **Gonzales**. Right.

Senator **Kerry**. So what I am getting at is you have got some big companies that are involved in this, correct?

Mr. **Gonzales**. We have some, yes, sir.

Senator **Kerry**. Some companies which simply would not qualify for service under the SBA, if you were strictly looking at it in SBA terms, is that not accurate?

Mr. **Gonzales**. I would assume that we would have some of them that would require, if they were that big . . . that would require the need for Business Development Center assistance. We keep hoping that maybe that will not be the situation where minority firms would need that assistance, but we find that most of the larger companies have already achieved a level of sophistication that they can hire their own accounting firms, their own management assistance, they can buy their own, in spite of the fact that our assistance is very economical, if I may say that.

Senator **Kerry**. Well, I understand that.

What I am getting at is, you know the old saying, if it ain't broke, why fix it. Why take the significant accomplishments you have talked about, something that you are proud of, that is growing in its ability to work, and put it over into an agency which has clearly been troubled? And I sort of say this as a premise not only to you, Mr. Gonzales, but as a preface to a question to you, Mr. Clarey. Let me give you a little more detail.

We currently have a bill in front of us to reform the 8(a) program of the SBA, which you are aware of, I know.

Mr. **Clarey**. Yes, sir.

Senator **Kerry**. Included in this bill are findings by Congress—these are findings by Congress—that state, one, the Small Business Administration has often failed to efficiently and equitably administer and manage the program.

Two, both contract support as well as business development expense have been provided by SBA to only a few firms, while many other firms have received little or no direct assistance under the program.

Three, widespread perception of undue political influence in the operation and administration of the 8(a) program has significantly contributed to the program's poor image and has deterred utilization of the program by both socially and economically disadvantaged concerns, and by Federal procuring managers.

We know that, for instance, the 8(a) program, I think some 33 firms, or less than 100 firms got about 33 percent of the available funding. A significant proportion of the available firms got none, and the rest of the percentage, you know, went to the rest of the firms, but very few people accessed and so forth. I mean, the problems are replete.

Why take an agency that has operated for 20 years under the Commerce banner, under Cabinet secretary leadership, with access to the White House directly through the Cabinet secretary, why take that agency and shove it over to a troubled agency in which the Congress, in fact, has very little confidence in its ability to be able to perform?

Mr. CLAREY. Well, let me take that step by step.

First, I think that since Senator Abdnor has moved to SBA, and I came with him, there has been a significant turnaround in the agency, both as to its future potential and as to its present management structure. The principal interest of both Senator Abdnor and I is to reform the MSB/COD program which we totally are in accord has been troubled over the years due to a whole host of reasons, not just strictly limited to management problems. There has also been a lot of difficulty on the economic development side.

One of the points that make this merger a wise move, I think, is that in moving MBDA to SBA you will have a single shop where all minority businesses can be serviced effectively.

Senator KERRY. Do you think we might be better off, if we are so intent on having one shop, by taking the minority business pieces out of SBA and putting them over in Commerce under the administration?

Mr. CLAREY. Well, that was to some extent the proposal two years ago by the administration to move Small Business in its entirety over to Commerce.

Senator KERRY. Well, no, but we all went through the problems of Small Business. I am just talking about the minority piece of this now.

Mr. CLAREY. Well, Senator, we feel that by moving the program to SBA, which is focused on small business we will benefit most those we intend to serve. And we have found, while we do not have empirical studies, that no more than 1 percent of the MBDA clients in the New York region that we did as a test case would exceed our size standards.

Senator KERRY. But do you not see the message implicit in that, explicit in it also, I think? You are really saying that we are going to treat minority businesses as a class, that is a small business, and it almost says that minority business cannot be big business, cannot be something that does not qualify as small business. I mean, you are creating a sort of permanent minority class of business within the SBA and Small Business program if you do that.

Mr. CLAREY. Not so.

Senator KERRY. Does minority business not deserve to be treated just like any other business in this country under the Commerce Department?

Mr. CLAREY. Absolutely.

Senator KERRY. Well, how do you do that if you just said we found that only 1 percent, so what you are really telling me is that there are not that many big businesses. I mean, that is the bottom line of what you just said to me.

Mr. CLAREY. Well, that is the answer, but the point is, you start out as a small business to become a big business. IBM was a small business when it started, and what we are saying is that the vast majority of minority businesses are small. It is in our arena where we can address their problems the best, not only with the minority programs, but with our procurement assistance programs.

Senator KERRY. But there are 840,000 firms that are dealt with by this minority business development business agency now. The SBA is not geared to deal with that, is it?

Mr. CLAREY. We would be because the agency would come over *in toto*, and we would merge together over the course of about two or three years into a smooth functioning operation.

If you notice the chart I asked to have drawn up, you will see our regional and district coverage. For instance, just take Massachusetts. We have a regional office in Boston, a district office in Boston, and a branch office out in Springfield, and numerous SBDCs, Small Business Development Centers, throughout the state.

You will notice in the State of Washington we also have the Seattle District Office, a Regional Office and an operation out in Spokane as well.

So when you provide this kind of field structure where it is a one-stop shop for all small businesses, it is a much more efficient delivery system to minority businesses. The strength of SBA for 35 years has been its field structure. Over 79 percent of our employees are outside the Beltway, and we feel that is very beneficial.

They are our retail outlets. They are out there serving the business community day in and day out.

Senator KERRY. Let me ask you about that, then, since you raise this issue about continuity of service.

Mr. Gonzales, you point out in your testimony that all MBDA personnel would be transferred to the SBA, is that accurate?

Mr. GONZALES. That is correct, sir.

Senator KERRY. In addition, you stated that the purpose of the transfer is to streamline programs.

Now, what happens to those personnel and programs that are slated for streamlining?

Mr. GONZALES. Last year, Mr. Chairman, part of the concern that both Senator Abdnor and I had at that time was what would actually happen.

I think this year the answer lies in the fact that it is an assurance that the transfer of those personnel from MBDA would go over to SBA, and only after fiscal year 1989, I believe, if I heard correctly, SBA would have a review determine whether any streamlining would be done.

I think what we are alluding to as far as the streamlining, we supported the matter last year as well as before Congressman Mfume's committee last year also, that centralizing the minority business community under one umbrella would be most beneficial to the minority business community.

Senator KERRY. I do not mean to interrupt you, and I want you to finish thoughts here, and I am not trying to interrupt you, but when you say it would be most beneficial to the minority community, why is the minority community not pouring out of the woodwork to come up here and say boy, we think your bill is crazy, Senator Kerry. We want to transfer over there?

Why are they all saying this is a good bill, we want to stay where we are, if it is going to better serve them? I mean, they are pretty good at determining what serves them and what does not.

Mr. **Gonzales**. I think that you will have certain allegiances, much like you had two years ago, three years ago when SBA was being proposed to move over to Commerce. If you recall the support that SBA generated not only from the small business community but from other segments of the country itself, and then also, three years ago, when the proposal to move only the 8(a) program to Commerce was proposed, it met with the same type of support from the minority community to keep the 8(a) at SBA.

I imagine that the same type of support that agencies would develop throughout the years of dealing with Minority Business Development Agency or SBA, for that matter, it is a matter of loyalty, I suppose, of an individual who has directly benefitted perhaps from a service of the agency that would not be in favor of such a move.

Senator **Kerry**. Does it occur to you that there is a distinct difference between what the 8(a) program is supposed to do in terms of set-asides for start-up and what it means to be in terms of the generic term Minority Business Development Agency to be under the Commerce Department which is cabinet level?

I mean, that distinction does not hit you on its face?

Mr. **Gonzales**. Well, I would say from a point of pride as the Director of the agency, and certainly recognizing the universe that the 8(a) program entails, I believe there is somewhere in the vicinity—and Don, I am not sure, whether maybe 3,000 8(a) contractors in the field.

Mr. **Clarey**. That is right. That is accurate.

Mr. **Gonzales**. But if we have that and we have—we cannot say with a degree of certainty that we are servicing the 840,000 minority businesses in this country either. That would be a misstatement. But I think if we can combine the fact that at the present time we have attempted to assist the 8(a) enrollees in the program, both the ones that, or I guess the three kinds of them: the ones that are in the program itself, the ones that have assisted in the certification process, and the procurement and so on, the ones that are near graduation, and the ones that have graduated, which I think is an important part, where SBA no longer has that type of, you might say, responsibility since they have a bank of 8(a) contractors.

We attempt to pick that up, and in fact, we will be submitting information for the record that we have assisted 8(a) graduated firms which are of concern to us.

Senator **Kerry**. Well, I would like to maybe take that a little further and really get to this.

We are talking about a couple of things here, I think. One is we certainly want to get at the issue of efficiency. We want to get at the question of how we best serve the minority community and the mandate, as you said.

Now, you said, Mr. Clarey, that the mandates are similar. I would question that, but I do not have time, and I want to perhaps come back to that afterwards, or one of my colleagues will pick up whether or not the mandates are the same. That is one area of questioning to examine this on.

Another area is obviously the message that is sent, the impact of this on the businesses affected and on the world that is affected.

It seems to me that if you had for 20 years a relationship within the Commerce Department, with its Cabinet secretary access and all that has been involved there, and a program that, as you have said, Mr. Gonzales, you are proud of, that is working, and you take that and you transfer it, notwithstanding, incidentally, the good leadership of Senator Abdnor—and we were very impressed by his appearance here this year, and I know he is trying to do the best he can to change it. I think his intentions are sincere, and I think everybody felt very positive about that. But it is the Congress that has taken the leadership, both in the House and Senate, to propose reforms with respect to 8(a) and the troubled SBA program, and to take this successful effort out of its Cabinet level and to place it into this troubled program whose mandate many of us think is for a portion of the minority business community but not the whole community is to send the message.

Now, I wonder if you would address that. I mean, do you not see on its face as sensitive people the message that sends to the minority community? Is that a positive message? Is that what we want to be doing at this point in time?

Mr. CLAREY. I would say the question is not so much one of message, but the question is one of service, and under the administration's proposal service to the minority community will be enhanced.

Let me give you an example. It is a little bit like video tapes. You have two systems, VHS and Beta. Both of them work. Both of them provide, you know, a product. But you have competition trying to do the same thing. So competition doubles the inventory, the Beta side has the movie you want, the VHS does not. That is on a par with what we are talking about here. We are talking about merging two very good systems, and we will grant you that the SBA has fallen down a little in the minority program. However we are working very hard, as you mentioned, to strengthen it.

What we are trying to do is merge these systems together under one roof for the purpose of serving the minority business community. And we feel that will provide valuable service. I think the message here is that there is one place to go, one phone number to know, and one effort to which the government is committed to enhance the programs. The strengths of both get put together, and then there is one-stop shopping, if you will.

Senator KERRY. Well, I know your answer is going to open up some questions from my colleague, Senator Wilson, and I am needed to provide a quorum at that other committee that I mentioned.

So at this point in time, Senator Adams will chair, and I know that both he and Senator Wilson would like to pick up where I left off.

Thank you. Thank you very much.

OPENING STATEMENT BY SENATOR ADAMS

Senator Adams [presiding]. Gentlemen, I am pleased to be here this morning to chair the committee for Senator Kerry. I will indicate we probably will have some votes during the course of the morning. We will try to accommodate those.

I am going to turn immediately to Senator Wilson for his statement, but before doing that, I just want to indicate that I was Secretary of Transportation when we had major development of minority business enterprise along the Northeast Corridor, and I have grave doubts in shifting this to Small Business Administration at all because we were at that time dealing with the attempts to put together minority contractors with firms of extraordinary size, and we had a set-aside in that corridor project that ran in the hundreds of millions of dollars, and I will have to see some better justification than I have heard so far this morning for shifting into a small administration a major effort in minority business development that presently has access to Cabinet status. It makes a great deal of difference when you are trying to deal with other Cabinet officers as at that time they were trying to do with the Department of Transportation, which up until that point had not had a great record in minority business involvement.

We were proud of what happened, but the Cabinet level operation did make it more successful.

I just mention that as an aside, Senator Wilson, so that the witnesses understand I have some familiarity with the bill that you have introduced.

I would now recognize Senator Wilson of California, co-sponsor of the bill.

OPENING STATEMENT BY SENATOR WILSON

Senator WILSON. Thank you very much, Mr. Chairman.

Your comments are directly pertinent, and obviously I do not intend to be dispassionate on the subject either. In fact, I think that it is understandable that those of us who prize the free enterprise system are passionate about what we conceive to be the need for full participation. It is the only way that what we conceive to be the wisest and most equitable form for creating and distributing wealth will in fact survive, providing the maximum possible opportunity.

I think that Democrats and Republicans may differ on a number of points, but it seems to me fundamental that what America should offer in fact, as well as in law, is full participation in the free enterprise system for all Americans. Our question this morning is how to best achieve this end.

We are talking about a full participation that does not guarantee anybody market share or profit, but offers opportunity and access to all Americans, certainly to all who have the courage to take a risk in the marketplace.

Improving the operation of the national economy is a goal that has received bipartisan attention. This morning we are particilarly focused upon how we achieve an improved national economy by enhancing opportunity for minority business enterprise. The primary Federal agency whose mission it has been to develop and coordinate a national program for minority enterprise is the Minority Business Development Agency, MBDA. First established in 1969 as the Office of Minority Business Enterprise, the agency has developed a strong foundation upon which to build further, the kind of program that will produce and actually achieve the goal of greatly increased minority participation.

Consider these statistics. Last year MBDA assisted nearly 13,860 minority entrepreneurs, for an average of over 16 1/2 hours per minority client, or a total of over 230,000 hours of assistance. The result? More than $610 million in financing in the form of direct loans, loan guarantees, grants and security bonds were approved, and nearly $1.1 billion in contracts were secured.

Now, in comparison, and I think this is quite instructive. In fact, I think, Mr. Chairman, that it graphically illustrates one of the differences between the Small Business Administration and MBDA. Last year SBA assisted only 1,606 minority clients through its Minority Small Business and Capital Ownership Development Program. Incidentally, that figure is 3 percent lower than the number of clients serviced by SBA in the previous year. Moreover, SBA generated loans totaled $142.7 million, in stark contrast to the much greater total developed by MBDA.

Let's take this one step further, Mr. Chairman, and ask how many minority clients has SBA served since 1971? The answer is just over 12,000. In 16 years, SBA has served the number of clients that MBDA assists in a single year. One year, 13,000 clients.

It is clear which agency has the stronger involvement in, and very obviously, a stronger record of achievement and commitment to minority enterprise.

If these figures do not adequately illustrate the difference between the agencies, then perhaps a brief mention of the services provided by SBA and MBDA would be helpful. MBDA operates its Minority Business Development Center Program through private, big eight accounting firms, business management firms with expertise in management, marketing, procurement, financial and technical assistance. Whether seeking to prepare business plans or financial statements to obtain loans and loan guarantees or certification in SBA's procurement programs, minority entrepreneurs need only visit an MBDC operated by MBDA.

If we are interested in one-stop service, I think we have got it. Over 100 centers are spread across the nation, geographically located in those cities in which large minority populations exist. In the State of California there are 18 Minority Business Development Centers in operation.

Today the Committee will hear from Mr. Kent Gibson, Director of Grants and Contracts Administration at the San Diego State University Foundation. The Foundation's distinguished record in the MBDA program stems from a strong commitment to minority enterprise which began in the 70s. San Diego State University Foundation played a pioneering role in a program that a then-mayor of San Diego sought to develop called Bridges to Business for Minority Enterprise, which I think was a precursor of their even stronger involvement through the centers.

The Foundation is involved in the operation of three business development centers in three different communities, and I look forward to hearing Mr. Gibson's testimony later this morning as a center operator.

By contrast, a minority entrepreneur who visits an SBA office is not provided with technology commercialization assistance or acquisitions assistance or financing assistance. He or she is handed a piece of paper an application form, a sheet of questions, and rarely technical assistance.

Additionally, I would like to comment upon the notion that the transfer of MBDA to SBA would significantly reduce administrative overhead. The bulk of MBDA's administrative expenses covers the salaries and benefits of personnel both at the regional and the national level, and the reason is simple. The competitive grants process operated by MBDA is labor-intensive. Indeed, without adequate staffing levels, the grants program would fail.

Presumably by transferring this program to the Small Business Administration, SBA would incur substantial administrative expenses operating the program as well. Thus, the argument that transferring MBDA to SBA would reduce administrative expenses is not plausible without either significantly reducing existing services to minority entrepreneurs, or substantially increasing SBA's operating budget, which would defeat the announced purpose of the transfer.

I do not wish to paint a picture that is so rosy of MBDA that I suggest it is perfection. It is not. Mr. Gonzales, the Director of MBDA, I am sure could give lengthy testimony about my interest in the successful and timely operation of MBDA. Indeed, it was my inquiry that prompted an internal review of MBDA's competitive grants process.

The resulting report identified several managerial weaknesses in that process. MBDA has initiated steps to correct those flaws. Later this morning I will wish to resume questioning of Mr. Gonzales or his designee to elaborate on the improvement that has taken place.

The bottom line, though, Mr. Chairman, is that MBDA is playing an important role in assisting our nation's minority entrepreneurs. And rather than tearing down that foundation and transferring the functions to SBA, which for the record, has had its own share of problems in the past, I believe we should instead build upon the foundation and look towards broadening the services that we offer minority entrepreneurs into such areas as international market development.

Mr. Chairman, in closing, I do not want to be seen as picking on SBA. I have no reason to do so. I have no desire to tear them down. And I will not only echo but augment the comments made by Senator Kerry with respect to the leadership of SBA, Jim Abdnor, whom I think is a man whose good intentions and diligence in pursuit of those intentions is beyond question. He happens to be someone who I regard as a very dear personal friend, and I think his competence is not in question.

I think the Administration's proposed transfer is something that perhaps at first glance looked as though it might produce a savings in terms of operation. Upon closer examination, I think that we have an agency, MBDA, which, by no means perfect, is working effectively to provide that increased participation to minority business enterprise that we are all agreed upon is essential to the survival and proper functioning of our free enterprise system.

I do not think the transfer to SBA would be doing anyone a favor. I do not think it would be doing SBA a favor. More to the point, I do not think that it would succeed as well as MBDA has in achieving fuller participation for minority entrepreneurs.

Clearly, the legislation that Senator Kerry and I have introduced, which would make permanent the authority in law for the functioning of MBDA, is the proper step, and I am pleased that this hearing is taking place.

I hope that we can move on the legislation.

Thank you.

Senator **Adams**. Thank you, Senator Wilson. Thank you, Mr. Clarey and Mr. Gonzales. Or do you have any further questions, Senator Wilson?

Senator **Wilson**. I do, Mr. Chairman.

Senator **Adams**. Do either of you wish to make comments before a few questions?

Mr. **Clarey**. If I may, I would just like to address one point. We in the Administration do not look at this merger principally as a money saving device. I want to emphasize that.

The real purpose of our proposal is to provide a better mechanism for assisting the minority business community. That is why this year we have been perfecting this proposal. Last year we called for somewhat of a cut. This year we are talking about bringing everything over and then merging the two programs.

There would be some Administration overhead that would be cut out. But frankly, there would be no cuts in services, and I am certain it is the intention of Senator Abdnor to assure that these vital services be maintained.

I just want to make that point, that our proposal has less to do with saving money and more to do with providing efficient service to the community.

Senator **Wilson**. Mr. Clarey, I accept that statement as one of your intention. I do not dispute it, but I do have some questions in consequence of it.

If that is the case, are you telling me that you intend to transfer all of the staff from MBDA? I am particularly concerned, as you may have gathered from my opening statement, with the level of staffing for the competitive grants process.

Mr. **Clarey**. That is correct. For the 1989 fiscal year the entire staff would come over.

The only shortage would be in the area of administrative resources that Commerce now provides. SBA administrative resources would provide these services under the proposal. So it is our intention to fully move the entire package to SBA. Across the board.

Senator **Wilson**. Well, you made the point that the transfer of function would not be viewed by the Administration as primarily a cost-saving device.

Would there be any cost-saving? If you are going to take the entire staff, and after all the cost of operating the agency is primarily the benefits and compensation of its personnel, what savings would occur?

Mr. **Clarey**. That is something we will work out. We would presume there would be increased efficiency and some necessary consolidation of operations in later years.

But again we will take the entire MBDA field structure and the employees and put them into SBA, merge them over the course of about two or three years, and at that time we would see what kind of savings result.

The primary emphasis has less to do with trying to cut people and cut overhead as it does with providing a more effective single entity. We believe that the recommendation would not be significant in terms of aggregate number of employees, but there would be some slight economies taken.

Senator WILSON. Let me pursue that with you, because I have in hand here the recommendations from the Chairman of the MBDA MSB reorganization working group.

It was dated February 9th of last year, and submitted by Chairman Martin D. Teckler. At recommendation number two, it states that SBA will assume 140 individuals, unless told otherwise.

Now, that is distinctly at variance from the present MBDA complement that operates MBDA programs. Some 213 are on board as of January 31, 1988. There is a discrepancy obviously between the recommendation that 140 be assumed as employees of SBA and the 213 that currently exist.

Mr. CLAREY. Senator, that is last year's proposal. This year's proposal recognized that discrepancy, and we have adjusted it accordingly.

Frankly that earlier proposal was put forward prior to Senator Abdnor and my move to SBA, and we have determined that it would be appropriate to move the entire agency work force and not make a cut like that.

As to the final numbers, we will make that determination once the two agencies are merged. But it is our intention and our desire to move the entire complement of MBDA personnel over to SBA. All of them.

Senator WILSON. Well, my interest in this predates you and Senator Abdnor, and I am glad you have made that point clear.

Taking your statement at face value, though, if there is not to be a reduction, and you have not really given an iron-clad guarantee that there will not be a reduction, you have simply said that it is your expectation that you will hire most of those people, that you are going to review it, and determine what the needs are.

Let us assume that you did simply transfer the existing personnel, and that they would now be performing the same function under a new roof, or perhaps under the old roof with a new name on it.

What is the real purpose of that? You have said twice now that the purpose is to give better service. But I think what is escaping the Chairman, and I guarantee you it is eluding me, is how you take an agency that is already more broadly involved in assisting minority entrepreneurs, and by transferring it into your agency, improve the service?

Does logic not dictate that if it is not broke do not fix it? Leave it where it is? And if there is not to be any cost savings, then I fail to understand why we can expect any improvement in the functioning simply because we are transferring it to a different agency.

It would seem to me that the transfer is necessarily disruptive. I just do not see the point. I do not see what promise there is realistically that this transfer is going to improve service.

Mr. CLAREY. It is our intent to take the strengths of MBDA—which is a fine, very good program, it has been around 19 years—and put those strengths into the MSB COD program, so that all minority services to businesses are under one roof.

Beyond that, remember SBA does a lot more for business then merely provide the service at issue here today. You mentioned the MESBICs. That is one function of SBA. We have many programs that assist not only minority businesses but all small businesses. And we want to try to get as many small businesses as possible and turn them into big businesses.

And you have to do it step by step. You just cannot go out and hire 7,000 people. You have to work your way up to that. We feel that by using the very good services of MBDA, and the services which Senator Abdnor and I are committed to strengthen at SBA, provides the kind of assistance necessary to move toward our goals.

For instance, much of what MBDA presently does is to package materials for SBA programs now. Bringing these systems together provides greater efficiency. Bear in mind minority businesses, just as any business that is a small business, are also eligible to participate in our loan guarantee program, MESBICs, SBICs, and many other programs.

The procurement assistance program that provided nearly $60 billion in contracts to small businesses during the past fiscal year, the 8(a) program that provided roughly $3 billion in contracts in fiscal year 1986, all of these programs are also available under the banner of SBA.

So we feel that the proposed incorporations frankly it makes us stronger and improves our delivery of services to small businesses, which we think is probably 98 or 99 percent of the client base of MBDA.

Senator WILSON. Well, let me just say this, Mr. Clarey. I obviously have grave doubts or I would not have introduced the legislation with Senator Kerry.

I frankly do not think that you have made a very compelling case. I have got a number of other questions, most of which I think I will submit for the record. But as a case in point, SBA has an 8(a) set-aside program. To my knowledge, everything else that you do is directed to small business on a general basis.

You have, to my knowledge, nothing like the database that has been built up by MBDA over a period of years. I am just not persuaded that we are going to achieve anything except an interruption in service to minority entrepreneurs by the shift to your agency.

I will be happy to consider whatever specific evidence you might have to the contrary. I would also like to afford you the opportunity to respond to additional questions that I have.

I do not know that there is time this morning. We do have two more panels to hear from. So, I will simply submit the additional questions for the record.

In addition, I do have questions for MBDA about the grants improvement process, as I have had for some time. In the interest of time, Mr. Gonzales, I will submit those for the record.

Senator ADAMS. Thank you, Senator Wilson.

Mr. GONZALES. Up till last year.

Senator WILSON. I will say you are improving. You are getting a little faster.

Senator ADAMS. Without objection, the questions will be submitted for the record. And we would appreciate each of you responding to the questions by Senator Wilson, by other members of the panel, as they come forth.

My final remark or comment would be that I hope that you will answer in the course of those questions how a small administration can protect the personnel and size of programs as well as a cabinet level department can.

I have had some little experience in that, and I find that cabinet officers have a little more clout than agency heads. Thank you both very much for your assistance. We appreciate that.

[The following information was subsequently received for the record:]

UNITED STATES DEPARTMENT OF COMMERCE
Minority Business Development Agency
Washington, D.C. 20230

APR 15 1988

1988 APR 21 PM 2:02

Honorable Ernest Hollings
United States Senate
Washington, D.C. 20510

Dear Senator Hollings:

Enclosed is a copy of the Minority Business Development Agency's (MBDA) return on funding report for fiscal year 1987.

We are pleased to report that a review of our fiscal year 1987 return on funding for the Minority Business Development Center/Indian Business Development Center programs indicate that each $1 of Federal funding resulted in $64 of assistance to our clients, as measured by the total worth of financial packages, procurements, and the dollar value of management and technical assistance services provided by the centers.

It is gratifying to note that this level of accomplishment represents 142 percent of our stated goal for fiscal year 1987, surpassing our fiscal year 1986 performance by nearly 40 percent.

The results of MBDA's performance in the State of South Carolina are equally impressive. In fiscal year 1987, the minority business development centers located in the cities of Greenville, Charleston, and Columbia reported providing current and prospective minority businesspersons with a total of more than $8,980,526 in financial packages, $16,387,915 in procurements, and 2,589 hours of management and technical assistance.

We are justifiably proud of the work our centers are doing to increase opportunities for minority businesspersons and to expand the economic base in South Carolina.

I hope you will agree that the record of achievement of our agency on behalf of our Nation's minority business community clearly illustrates that MBDA's programs represent a solid investment in America's future.

We commend you and your staff for your continued support of minority business enterprise, and look forward to working together to ensure the continued growth of the minority business sector of our economy in fiscal year 1988 and beyond.

Sincerely,

JRichardson

James H. Richardson Gonzales
Director

Enclosure

Return on Funding (ROF)
MBDC/IBDC Programs
FY 1987

Regional Summary

ROF Ranking	FY 1987 Total $ Performance	FY 1987 Federal Funding	FY 1987 ROF	FY 1986 ROF
Chicago	328,215,415	3,331,196	$ 99 to $1	$ 53 to $1
Dallas	327,329,457	4,755,201	69	45
New York	264,973,761	4,229,579	63	47
Atlanta	259,034,481	4,369,351	59	52
San Francisco	425,575,079	7,470,837	57	45
Washington	67,567,375	2,041,780	33	31
Total - Actual	1,672,695,568	26,197,944	64	46
Total - Goal	1,185,496,224		45	

Source: Funding - average monthly funding during FY 1987.
Performance - provided by ISP&D from BDR reports for FY 1987. Total $Performance consists of the actual total of financial packages, procurements and the dollar value of M&TA at $50 per hour.

Region: Chicago

ROF Ranking	FY 1987 Total $ Performance	FY 1987 Federal Funding	FY 1987 ROF	FY 1986 ROF
Cleveland	(147,334,628)	(280,200)	(526)	
Akron/Canton (Amend.)	(7,619,618)	(70,000)	(109)	
Combined	154,954,246	350,200	$442 to $1	$123 to $1
Indianapolis	21,661,942	168,750	128	20
Columbus	15,999,177	154,545	104	106
Chicago #2	30,744,900	425,708	72	55
Cincinnati/Dayton	14,476,752	222,825	65	56
Kansas City	13,153,008	223,850	59	78
St. Louis	14,705,694	276,934	53	38
Detroit	21,876,502	449,250	49	30
Chicago #1	17,631,402	404,058	44	33
Minneapolis	6,164,541	157,159	39	39
Milwaukee	6,382,323	166,667	38	50
Minnesota Chippewa IBDC	5,309,810	165,000	32	12
Gary	5,155,118	166,250	31	40
CRO - Total	328,215,415	3,331,196	99	53

Return on Funding (ROF)
MBDC/IBDC Programs
FY 1987

Region: Dallas

	FY 1987			FY 1986
ROF Ranking	Total $ Performance	Federal Funding	ROF	ROF
Denver	(42,272,493)	(221,800)	(190)	
Colorado Springs (Amend.)	(906,544)	(28,555)	(32)	
Combined	43,179,037	250,355	$172 to $1	$ 57 to $1
Brownsville	23,527,183	141,666	166	154
Corpus Christi	(31,579,793)	(176,459)	(179)	
Corpus Christi (Amend.)	(5,380,359)	(49,359)	(109)	
Combined	36,960,152	225,818	164	54
Albuquerque	26,706,014	271,428	98	74
Laredo	12,376,303	141,666	87	25
Baton Rouge	13,063,053	156,288	84	47
Dallas	33,693,609	424,250	79	37
Oklahoma IBDC	11,501,833	157,500	66	55
San Antonio	21,276,131	373,495	57	71
Austin	7,664,420	141,666	54	32
New Orleans	13,488,397	263,636	51	29
McAllen	9,658,166	191,667	50	30
Houston	27,321,868	547,925	50	48
Oklahoma City	7,671,403	157,159	49	49
El Paso	10,616,817	241,666	44	15
Beaumont	5,099,149	128,788	40	25
Salt Lake City	6,197,147	167,917	37	27
Little Rock	5,312,744	167,917	32	32
Shreveport	4,773,194	155,416	31	55
Tulsa	1,835,286	68,750	27	23
New Mexico IBDC	3,174,819	157,500	20	47
Bismarck IBDC	1,194,656	100,000	12	4
Lubbuck (Amend.)	1,038,076	122,728	8	-
DRO - Total	327,329,457	4,755,201	69	45

Region: New York

	FY 1987			FY 1986
ROF Ranking	Total $ Performance	Federal Funding	ROF	ROF
Ponce	41,481,801	283,466	$146 to $1	$ 73 to $1
Brooklyn	44,449,792	347,909	128	40
Connecticut	21,637,813	225,900	96	26
Rochester	11,741,522	127,500	92	25
Mayaguez	17,005,506	224,875	76	66
San Juan	35,796,912	535,953	67	96
Virgin Islands	9,418,584	168,333	56	24
Bronx	17,841,823	338,793	53	65
Nassau/Suffolk	11,191,144	225,900	50	41
Queens	12,765,818	282,150	45	26
ODA	11,516,596	327,250	35	35
Newark	13,749,559	398,600	34	45
New Brunswick	4,901,161	154,545	32	39
Manhattan	7,235,400	274,100	26	31
Buffalo	2,264,811	128,788	18	-
Boston	1,975,519	185,517	11	17
NYRO - Total	264,973,761	4,229,579	63	46

Return on Funding (ROF)
MBDC/IBDC Programs
FY 1987

Region: Atlanta

	FY 1987			FY 1986
ROF Ranking	Total $ Performance	Federal Funding	ROF	ROF
Montgomery	18,168,056	167,500	$108 to $1	$ 53 to $1
Atlanta	26,823,303	275,300	97	63
Memphis	20,673,136	222,554	93	14
Charlotte	14,994,498	162,479	92	32
Augusta	12,700,115	154,545	82	125
Jacksonville	12,346,974	157,159	79	9
Savannah	10,671,761	143,409	74	37
Orlando	12,329,245	166,250	74	57
Fayetteville	11,498,741	157,159	73	30
Columbus	11,069,449	154,545	72	65
Columbia	9,484,341	157,159	60	42
Nashville	9,088,506	154,545	59	28
Charleston	8,829,506	157,159	56	28
Jackson	6,255,653	123,750	51	20
Raleigh/Durham	10,102,426	211,243	48	64
Greenville	7,184,044	157,159	46	16
Louisville	7,544,876	166,250	45	54
Miami/Ft. Lauderdale	24,587,742	589,832	42	49
West Palm Beach	6,077,745	167,500	36	165
Birmingham	5,167,286	167,500	31	90
Tampa	6,904,316	223,854	31	58
Mobile	4,396,925	167,500	26	25
Cherokee IBDC	2,135,835	165,000	13	10
ARO - Total	259,034,481	4,369,351	59	52

Region: San Francisco

	FY 1987			FY 1986
ROF Ranking	Total $ Performance	Federal Funding	ROF	ROF
Santa Barbara	31,158,729	156,288	$199 to $1	$ 90 to $1
Tucson	24,773,211	161,975	153	20
Oxnard	18,678,300	157,159	119	50
Seattle	23,649,003	211,243	112	21
San Diego	24,620,196	336,550	73	53
California IBDC	18,966,296	263,250	72	53
Los Angeles #2	58,298,177	957,175	61	33
Salinas	8,436,345	157,159	54	37
Los Angeles #1	51,398,452	966,812	53	46
Phoenix	11,828,749	230,863	51	42
Bakersfield	7,573,851	156,288	48	47
Portland	7,577,303	157,159	48	42
Las Vegas	7,475,682	157,159	48	86
Anaheim	15,571,198	336,550	46	37
Alaska	7,144,913	157,159	45	130
Fresno	9,269,020	211,243	44	52
San Francisco	32,902,276	750,500	44	72
Honolulu	23,552,982	540,833	44	32
Stockton	7,280,432	167,917	43	54
Sacramento	9,651,916	224,388	43	22
Arizona IBDC	9,592,738	283,500	34	0.02
Riverside	9,631,740	285,100	34	15
San Jose	5,617,862	244,567	23	35
AIC	925,700	200,000	5	-
SFRO - Total	425,575,079	7,470,837	57	45

Region: Washington

	FY 1987			FY 1986
ROF Ranking	Total $ Performance	Federal Funding	ROF	ROF
Pittsburgh	10,977,317	157,159	$ 70 to $1	$ 20 to $1
Newport News	8,090,884	167,503	48	35
Philadelphia	20,849,792	449,250	46	67
Baltimore	13,109,330	336,550	39	28
Norfolk	6,942,852	197,502	35	24
Richmond	3,257,339	157,159	21	13
Washington	4,339,861	576,657	8	2
WRO - Total	67,567,375	2,041,780	33	31

And we will call forward now the next panel. Mrs. Willie Cam Nimmons, President of Infinite Creations, Inc., Mr. Louis Gnecco, President of Tempest, Inc., Mr. Evan Williams, President, Dalton Construction Company.

Welcome to the Committee, and we look forward to hearing your testimony.

Senator **Wilson**. Mr. Chairman, before the panel begins, if I might, in addition to inserting questions for the prior panel in the record, I would ask unanimous consent that there also be made a part of the record communications that I have received in support of the proposed legislation. I have letters from Raul Yzaguirre, the President of the National Council of La Raza, William Thomas, Executive Director of the Business Development Centers, Gus Prosise, President of Equity Mortgage in Sacramento, California, Leonard Hill, the Secretary of SHW Corporation in Sacramento, and Felesta Smith, President of Industrial Implements of Rotomixx Concrete Systems in Sacramento.

I will not read all the others, but there is a packet here that I would like to submit for the record.

Senator **Adams**. Without objection, those items will be entered into the record as submitted by Senator Wilson.

We want to welcome each of you to the panel. We look forward to your testimony, and we will proceed.

Ms. Nimmons, you happen to be in the middle so why do we not start with you, and then we will go to Mr. Williams and Mr. Gnecco.

STATEMENT OF WILLIE CAM NIMMONS, PRESIDENT, INFINITE CREATIONS, INC.

Ms. **Nimmons**. Good morning, Mr. Chairman and members of this committee.

My name is Willie Cam Nimmons and I am founder and president of Infinite Creations, Incorporated, in Bamberg, South Carolina. Infinite Creations is a major manufacturing firm specializing in textile products for military and industrial customers.

The company had a 705 percent increase in revenues, from $139,000 in 1981 to $1.1 million in 1985. In 1986, sales were $2.3 million, with projections of being between $3 and $4 million in 1987.

Infinite Creations has 150 employees, making the company one of the largest employers in Bamberg, South Carolina. In 1986, my firm won a $1.6 million military contract, believed one of the largest ever awarded to a South Carolina-based company, to produce 7.4 million polypropylene sandbags for the Defense General Supply Center in Richmond, Virginia.

Infinite Creations received an even larger contract, totaling $2.2 million, its largest ever, to produce small arms cases for the Defense Department.

In 1986, I was honored as the national minority entrepreneur of the year at a White House ceremony during the presidentially proclaimed minority enterprise development week, which is annually coordinated by the Minority Business Development Agency.

I have traveled here today, Mr. Chairman, from Bamberg, South Carolina, to testify on behalf of MBDA and to pledge my strong support for S. 1848 and all that it would establish to strength MBDA's role.

First, I should state that the growth of Infinite Creations as a major manufacturing firm would not have been possible without the assistance of MBDA and its funded Columbia, South Carolina, Minority Business Development Center.

Infinite Creations was introduced to the Columbia, South Carolina, MBDC at a critical stage in its development. We were specifically assisted in identifying numerous leads for business opportunities with military and industrial customers, including Fabric Nationale Manufacturing, a weapons manufacturer headquartered in Herstale, Belgium. Without the center's assistance, we would never have landed the FN Manufacturing account. The center also helped my company to identify a $2.2 million contract with the Defense Department to produce small arms cases. The center assisted us to obtain certification to the Small Business Administration's 8(a) procurement program, as well as financial planning assistance.

Without the assistance of the Columbia, South Carolina, MBDC, Infinite Creations would not have grown as rapidly and would not have earned the respect and appreciation of the defense industry for our technical and manufacturing capability.

Infinite Creations is not the only satisfied customer of MBDA program assistance, as you will learn from additional testimony given this morning. In fact, in the agency's 19-year history MBDA has assisted the creation and expansion of more than 300,000 minority-owned businesses. Of course, that has been discussed back and forth this morning.

The MBDA is presently the only Federal government component whose sole function is promotion of minority business development in the United States, and that is important to us as minorities, at least coming from the South Carolina area, because we need someone to focus in on us and to have as a sole responsibility assisting the development of minority businesses. The Small Business Administration, on the other hand, has a much wider legislative mandate.

I strongly urge the Chairman and members of this committee to oppose the Administration's recent attempt in its 1989 budget proposal to transfer MBDA to SBA.

A more positive development for the Federal minority business program would be Congressional passage of S. 1848 and its companion bill, H.R. 1769, in the House.

MBDA's programs are designed to encourage the economic competitiveness of more than 840,000 minority firms in the general marketplace. The SBA's minority business programs focus almost entirely on set-asides from the Federal government's market for the 2,900 or so companies presently admitted to the SBA's 8(a) program. Of course, I have also used the SBA 8(a) program, which the MBDC helped me to get.

And it is for those reasons that I oppose attempts to transfer MBDA from the Department of Commerce to the SBA and support S. 1848. I strongly urge this committee to move with great speed in guiding S. 1848 through the legislative process in the Senate, for the longer you wait the more we hurt.

As part of the Department of Commerce, MBDA has direct access to the mainstream of America's business community and Cabinet-level resources and facilitates assistance to minority entrepreneurs. Transferring MBDA to the SBA could send an erroneous signal to the MBDA's constituency.

Minority firms could interpret this to mean that the Federal government seeks to severely limit minority business participation in the American economy by demoting its status from an agency. The transfer proposal would be a clear subversion of minority business enterprise development programs.

More importantly is the fact that MBDA, because of its organizational alignment with the U.S. Department of Commerce, has increased corporate America's support for companies such as Infinite Creations and other minority businesses. Because of MBDA's working relationship with various minority businesses and trade organizations, corporate America spends more than $10 billion with minority-owned businesses annually. Furthermore, MBDA is not limited, as has already been stated here this morning, in its services to the various sizes of minority businesses.

The potential for mass confusion and misperceptions would be laid to rest with the Congressional passage of S. 1848, a bill that would strengthen MBDA within the Commerce Department and clarify its relationship with SBA.

I strongly support S. 1848 because it sets the tone for a cohesive Federal program to enhance minority business development. It gives MBDA greater operating authority and considerably more clout within the Federal bureaucracy with which to carry out its program mission. One of the most important aspects of S. 1848 is the renaming of MBDA to the Minority Business Development Administration, instead of an agency, which would be headed by an Administrator in the Commerce Department. This is a different title than H.R. 1769, which calls for the MBDA to be headed by an Assistant Secretary of Commerce.

I am sure that this difference will be resolved in the House and the Senate, of course.

Mr. Chairman, I would like to close by strongly urging this committee to pass S. 1848 so that MBDA can be strengthened and get on with the job of minority business development which we so badly need in the U.S. if we are to ever realize any part of the American dream.

Thank you. I would like for the rest of my comments to be submitted in writing to you.

[The balance of the statement follows:]

STATEMENT OF WILLIE CAM NIMMONS

An assistant secretary of commerce, or administrator, in either case, elevates MBDA, which is presently headed by a Director, within the federal bureaucracy and would enhance the credibility of the overall federal minority business development program.

But S. 1848 does much more. Title I of the bill concentrates on the development of domestic and foreign markets for minority-owned businesses. It encourages an active role in joint venturing by minority and public, or private sector organizations.

It would also encourage consultation and cooperative agreement and contractual financial assistance to state and local governments for the same purposes.

Title II of the bill is designed to enhance the ability of minority-owned businesses to obtain vitally-needed equity capital. This is another key facet of the bill. Access to equity capital remains one of the major problems confronting the development of minority-owned businesses. And not enough is being done to solve this problem. S. 1848 is a major step in the right direction. Title II of the bill authorizes the government to defray the costs of projects conducted by public or private organizations to assist in this effort. This is a new grant of authority not presently available to MBDA. The title also establishes a revolving fund available for investment by the government in minority-owned businesses.

Title III of the bill would authorize the government to promote and assist the education and training of minority entrepreneurs in subjects related to business management an administration through cooperation with academic institutions and private and state and local governmental organizations.

Title IV of the bill would require a report within one year of the effective date of subsection 401(A) to Congress regarding the type and amounts of resources needed to assist minority-owned businesses at all levels of the economy to obtain the position they would have attained were it not for discrimination. It would authorize the expenditure of funds by the administration with public or private organizations by grant, contract, or cooperative agreement to obtain the information necessary to compile that report. This is also a new grant of authority not presently available to MBDA. Title IV would also authorize the administration to develop a data bank on minority-owned businesses and maintain a clearinghouse for the collection and dissemination of specified information pertinent to minority-owned businesses.

As you can see S. 1848 offers many promising opportunities for expansion of the MBDA program and the government's overall efforts to increase economic opportunities for minority-owned businesses. With your support of the other members of Congress and the people of this country for passage of S. 1848 and a brighter future for minority business development.

Minority business enterprise is good for all Americans. It needs the full support of both the government and corporate sectors. For example, Boeing and Ford Motor Company are heading a growing number of major U.S. corporations administering highly successful programs to increase corporate purchases from minority suppliers. Both Boeing and Ford are among the 3,500 corporate members of the National Minority Supplier Development Council, which has been funded by MBDA since 1972 to increase corporate relations with minority-owned businesses.

Corporate America's commitment to minority enterprise development has been significant. I recall a speech made by Gary L. White, former manager of Minority Supplier Development at Ford, who said: "By supporting legitimate minority-owned companies in becoming independent, competitive, mainstream enterprises, industry is helping people get off the welfare rolls and into the workplace, thereby reducing both corporate and individual taxes. More importantly, by giving minority entreprenuers the opportunity to succeed—on their own merits—industry is helping to provide the role models inner-city youth need so badly. Secondly, it simply makes good business sense to do business with minority firms. Minorities now comprise more than 20 percent of the U.S. population. They are an economic force to be recognized—and reckoned with. By participating in minority enterprise, industry can appeal to a market that has long been ignored. In short, if America is to meet the global economic challenge it is now facing, we will need all her people—their talent, their new ideas, their potential for entrepreneurship—to come out on top."

I should point out that Gary White today is president of Jones Transfer Co. of Monroe, Michigan, which is the largest minority-owned and operated truckline in the United States.

Overall, corporate purchases from minority-owned firms have grown to more than $10 billion—and the amount is increasing. The same is true for federal purchases from minority-owned companies which totaled nearly $9 billion in 1986. Overall federal funding to minority-owned businesses totaled nearly $12 billion in 1986, with increased funding projected for 1987. The federal commitment to minority enterprise development was heightened recently when the U.S. Department of Defense announced a five-percent goal in DOD funding to minority-owned firms, which would amount to $32 billion in funding opportunities.

Those are significant developments for the continued expansion of minority-owned businesses. I see no reason why the progress being made to foster minority business development should not continue. If the federal government can arrange multi-billion-dollar bailouts and subsidies for Continental Illinois National Bank and Trust Co. of Chicago, Chrysler and First City Bancorp. of Texas, and other financial, agricultural and manufacturing industries to help save those institutions and industries from total collapse, then certainly the federal investment in minority business development should be equally viewed as a monumental investment in the future economic program of the nation.

Minority-owned businesses are making a significant contribution to the growth and prosperity of the nation. Millions of Americans today lead productive lives as employees of minority-owned businesses. Neighborhood urban and rural communities, once blighted by poverty and high unemployment, are now being rejuvenated because of the emergence of successful minority-owned businesses. Billions of dollars that might otherwise have been lost to the nation are now being generated by minority-owned firms for essential tax revenue.

That is why it is so vitally important to the nation that the federal government maintain its strong commitment and support for minority business development and that passage of S. 1848 be accomplished. We simply cannot afford to lose this opportunity to preserve and ensure the progress of our nation's current and future generations of minority entrepreneurs.

Mr. Chairman, this concludes my prepared testimony. I will be more than happy to respond to any questions the committee may have at this time.

Senator **Adams**. I might state to the other witnesses that, without objection, your full statements will appear in the record and you may either give your statements or summarize them as you wish, but they will be printed in full if you summarize.

Mr. Williams.

STATEMENT OF EVAN WILLIAMS, PRESIDENT, DALTON CONSTRUCTION CO.

Mr. **Williams**. Good morning, Mr. Chairman.

My name is Evan Williams, Dalton Construction Company. Mr. Chairman and members of the committee, it is both a privilege and a pleasure to appear before you this morning. I am president and chief executive officer of Dalton Construction Co.

I would like to thank the committee for holding today's timely hearing on S. 1848, the Minority Business Development Act. As a direct beneficiary of the program operated by the Minority Business Development Agency, I believe that the legislation is important to ensure that business development services continue to exist for minority entrepreneurs.

My company's experience with MBDA began with an enthusiastic offer of marketing and technical assistance from an MBDA development center. The center offered me a wide array of services which were extremely beneficial. With the permission of the committee, I would like to briefly discuss the type of assistance MBDA provided.

After working with representatives of the center, I chose to pursue assistance under the Small Business Administration's 8(a) program. MBDA not only assisted me in developing a business growth plan, but also provided me considerable technical services.

Once firmly established, MBDA facilitated the procurement of construction contracts in both the public and private sectors.

Throughout Dalton Construction's development process, MBDA personnel were extremely helpful, indeed essential, to achieving our present level of marketing competitiveness. In short, MBDA made it possible for me to make a substantial contribution to the American economy. Absent this assistance, I would not be appearing before the committee today.

Therefore, I believe it is critical that MBDA become a permanent agency within the Department of Commerce, and the benefits, if any, achieved from transferring MBDA to SBA should be carefully weighed against the costs to minority entrepreneurs of abolishing MBDA.

Thank you, Mr. Chairman. I would be glad to answer any questions for the committee.

I would also like to add that the toughest part of my development as to where I am today was dealing with SBA. Thank you.

Senator ADAMS. Thank you, Mr. Williams.

We are going to have a vote on, but Mr. Gnecco, if you would like to present your testimony, I will then recess the committee for 10 minutes and we will return, so that we can complete the questioning and the other panel. There is a vote on now and it is a 15-minute vote. So if you could summarize in about 5 minutes. Otherwise, we would break your testimony and hear it coming back.

Mr. Gnecco.

STATEMENT OF LOUIS THOMAS GNECCO, PRESIDENT, TEMPEST INC.

Mr. GNECCO. Thank you, sir.

My name is Louis Thomas Gnecco. I am an electronics engineer and I am also the president and owner of Tempest Incorporated. We are a communications engineering firm in Herndon, Virginia.

The MBDA has helped my business in several important ways. We first got involved with them as part of our 8(a) application with the Small Business Administration. Since this is a complex process, the SBA recommended that we get help from the Gregory K. Washington Minority Business Development Center here in D.C.

This firm is under contract with the MBDA to help companies like us, and they have been a tremendous help to us, not just in filling out 8(a) forms, but in the following other ways as well.

First of all, they helped us negotiate a very complicated transaction where we sold 40 percent of our stock to another corporation which is publicly held. I am a pretty good engineer, but I am not a sophisticated businessman, and this was the most complicated negotiation I have ever done in my life.

The negotiations came close to breaking down several times, and the deal would definitely not have gone through without the advice provided by Mr. Vicente Villa of Gregory K. Washington's firm. This arrangement has since proven to be very beneficial to both companies.

Another thing they did was they introduced us to Yeargin Associates, a very sophisticated, very professional marketing organization that is still willing to deal on a commission basis with a small firm like ours. Our sales efforts were already pretty good, but this firm expanded our prospects in practical ways that I would never have imagined.

The third thing is, we are in a very highly regulated industry. The regulatory agency recently made some decisions that seriously hurt our business. Greg's firm has helped us to successfully cope with these serious problems, too.

Greg's organization acts as an invaluable Dutch Uncle to us, providing the kind of sophisticated business advice to which someone of my background does not ordinarily have access. Thanks to the Minority Business Development Agency, I can get their help at a very reasonable cost. I could not have afforded them otherwise.

I am in favor of S. 1848 for the following reasons: No. 1, it strengthens an agency that clearly helps minority businesses in practical ways.

No. 2, the MBDA acts as an advocate for firms that are applying to the 8(a) program. I think it is a good idea to keep the advocate independent of the agency before which it is practicing.

And thirdly, some people might say that this bill causes too much Government involvement in business. In my industry, this has already happened indirectly. Existing Government contractors enjoy tremendous advantages over those of us that are trying to compete against them. This bill would help level the playing field.

Finally, let me say that my biggest business problems have not been caused by my competitors or by my clients. They have been caused by the Government. This bill strengthens an agency that seems to foster competition, instead of stifling it.

I would like to add that the only other thing I see in this bill is, they should probably put some words in there to include women because, even though they get a pretty fair shake in the military and the civil service, I have found that in business they are really getting the short end of the stick.

I want to thank you for the privilege of presenting my views, and I am prepared to answer any questions at this time.

[The following information was subsequently received for the record:]

TEMPEST INC.
P.O. Box 961
Vienna, Virginia 22180
(703) "TEMPEST" (836-7378)
manned 24 hours a day

April 11, 1988

Senator Ernest F. Hollings,
Chairman,
Committee on Commerce, Science, and Transportation
United States Senate
Washington DC 20510-6125
(202) 224-9350

Dear Senator Hollings:

This letter is in response to your letter of March 23, (tab 1).

Since November 1987, the National Security Agency has been artificially preventing me from practicing my profession. We have services to deliver and many clients that want them, but very shortly the NSA's policies will drive my small, highly regarded company out of business. They will also seriously damage another small, publicly traded corporation that negotiated in good faith for our services.

Until today, I have been reluctant to discuss my problems with your committee because I have been afraid of retribution. The following are the facts:

1. We are in the TEMPEST engineering business. We develop communications equipment that is resistant to electronic "snooping". Most of our work is classified. We have a security clearance (FSC code: Zero B731). To the best of my knowledge, we are the only Hispanic owned TEMPEST engineering company in the world.

2. In order for two cleared companies to do classified business, they must first get permission from the government. This is done by a form known as a DD-254. These are routinely approved by NSA for companies that are members of their Industrial TEMPEST Program (ITP).

3. This program confers tremendous advantages on its 180 member companies (tab 2). Among these are the ability to list products on a "Preferred Products List", access to an "Electronic Bulletin Board" which announces all their new policies, and the privilege of taking tests leading to certification as a "Certified TEMPEST Engineer".

4. About a year ago, the National Security Agency closed its program to new members, indicating that the program would reopen in September of 1987. (tab 3.)

5. In August of 1987 my partner and I agreed to split our successful TEMPEST company into two independent companies. Based on NSA's representation (tab 3), I assumed that I would have no difficulty gaining entrance into the ITP. I therefore agreed to allow him to keep membership in the ITP. I subsequently concluded an important services contract with one of our clients, with the help of the Minority Business Development Center.

6. In November 1987, I was told by NSA that they had changed their policy. The ITP would remain closed indefinitely, and that they would refuse to consider DD254's with companies that were not already members.

7. This decision stopped practically all our contracts, and had a devastating effect on the company that negotiated in good faith for our services. We asked NSA to reconsider (tab 4).

8. Other new companies were hurt as well (tab 5).

9. We were advised by the Minority Business Development Center to go to our senator and congressman and to the Small Business Administration for help. We did this, to no avail. Their letters were answered by obfuscation (tabs 6, 7, & 8).

10. Recently, the NSA announced another change in policy (tab 9). The ITP will be cancelled altogether, and replaced by new programs. We will have to apply for membership in these. An ITP application takes 6 to 8 months to process.

11. We have been prevented from doing business for nearly six months. We simply cannot remain in existence much longer. Our client, who negotiated in good faith for our services, is now also in grave danger of bankruptcy due to this.

12. We recently tried to "buy" membership in the ITP for $10,000 by buying the defunct TEMPEST operation of another company. This offer fell through.

13. The individuals at NSA have all been sympathetic, but they have not relented on their official policy on the DD-254's, which continues to artificially prevent us from doing business.

14. The minority business development center has helped us greatly with this and with our application for 8a certification. It is clear that NSA's policies will soon drive us bankrupt, even though we have clients who want and need our services (see our attached flyer, tab 10).

Yours truly,

Louis Gnecco President

Louis T. Gnecco, President

QUESTION OF SENATOR WILSON AND THE ANSWER THERETO

**** In your testimony you mentioned difficulty that you have experienced in business relations with the government. Could you please provide the Committee with a detailed analysis of these difficulties and how MBDA assisted you to overcome them?**

The material supplied with this letter was not reproducible and is in the Committee files.

Senator **Adams**. Thank you, Mr. Gnecco.

The committee will stand at recess for 10 minutes. We will vote and then we will return and question the panel. And the members of the other panel, if they will remain, we will proceed with them.

The committee will stand at recess for 10 minutes.

[Recess.]

Senator **Adams**. The committee will reconvene.

When the committee recessed for the vote, panel No. 1 had just completed its testimony, Mr. Williams, Mrs. Nimmons, Mr. Gnecco.

I want to welcome Senator Pressler here this morning. We were prepared, Senator Pressler, to start with questioning, but if you had an opening statement or any comments you wished to make, why, we would certainly accommodate it at this point.

Senator **Pressler**. No, Mr. Chairman. I may have one or two questions for the record.

I am trying to help make a quorum in another committee. They are trying to have a business meeting, so I may not be able to stay long. I just wanted to welcome our witnesses and thank you very much.

Senator **Adams**. Thank you, Senator.

I have a question to you, Mr. Gnecco. As I remember and I understand, tempesting is the protection of computer operations from the pirating of signals and therefore reading the computers through sound devices and otherwise. Is that the type of business you are in?

Mr. **Gnecco**. Yes, sir, that is correct.

Senator **Adams**. And this is a very highly regulated business, is it not?

Mr. **Gnecco**. Yes, sir, it is.

Senator **Adams**. Our real issue this morning is whether or not the minority business centers are better off under the Minority Business Administration or if they should be merged into SBA. Have you had any experience with SBA attempting to obtain regulatory clearances for you?

Mr. **Gnecco**. No, sir.

Senator **Adams**. In other words, this has all been done through the existing structure, is that correct? In other words, you went to the center and the center informed you how to obtain clearances into the various areas?

Because as I remember, these require a significant degree of both security clearance within and without your operations in order to supply this equipment to sensitive agencies.

Mr. **Gnecco**. Yes, sir. I have been a government employee for 19 years before I got into the business world, and so I was pretty familiar on how to get the clearances and that part of it. I cannot really say that I needed either the MBDA or the SBA to help me with that aspect of it.

Senator **Adams**. What was the regulatory aspect that was troubling you that you mentioned in your statement?

Mr. **Gnecco**. Well, sir, I think that is probably a little bit outside the scope of this hearing.

Senator **Adams**. I am just trying to determine which of these two agencies, Commerce or Small Business Administration is better suited to assist your business, if there is a difference. You basically have stated that you felt that the Minority Business Development Act and its structure has been more helpful to you than if it were merged into SBA. That is the only purpose of my question.

Mr. **Gnecco**. The National Security Agency runs a program called the Industrial Tempest Program, and it has been closed to new companies for about the last year and it is going to remain closed indefinitely.

Membership in that program confers tremendous advantages to the companies that are in it. For example, the only way an engineer can be certified to be a certified Tempest engineer, to take the proper tests and everything, is if his company is a member of that program.

My company is not, so that it kind of puts a damper on a lot of our business. But I understand that NSA is well on its way to opening up the program again.

Senator **Adams**. Senator Pressler, did you have any questions of these witnesses?

Senator **Pressler**. No. Thank you.

Senator **Adams**. Senator Wilson?

Senator **Wilson**. Mr. Chairman, I would like to pursue at much greater length than we have time for the experiences that Mr. Williams suggested he had with SBA. Maybe he can give us a quick capsule.

And, I was particularly interested in the statement by Mr. Gnecco that the chief problems he had encountered as a businessman were with the Government, and that he had found that MBDA had performed for him the invaluable service of assisting him to get through the bureaucratic maze.

I would invite brief comments by both of them. They are probably tempted to give us less than brief answers by their experience, which would be only human. Mr. Williams, you mentioned you had had some difficulties with SBA. Could you briefly describe those difficulties?

And, Mr. Gnecco, you might then briefly describe how MBDA has assisted you in dealing with problems imposed by the Government.

Mr. **Williams**. I am Evan Williams, Senator. One of the main things, one of the main problems I had with SBA under the 8(a) program, there was the part of the 8(a) program which en[illegible] SBA to assist a contractor to secure equipment depending on the job and their needs.

During the five years or four years I was in 8(a), I only had four jobs. The four jobs that I did get were rather substantial jobs. There was certain equipment that I was entitled to that SBA did not assist me in getting that equipment or make me aware of the fact that that equipment was there for me from a business or investment standpoint.

They were more concerned of what I might be getting personally, rather than the development of my company.

The other problem with SBA is that any time you get a loan from SBA, that loan is automatically beginning to make interest and payments within a 30 to a 90 day period. Most businesses who get loans from SBA begin to make payments from the loan factor, from the fact that they borrowed the money from SBA or out of that fund.

That is one of the more detrimental parts of the loans from SBA, because you cannot generate the flow of your income versus the loan as fast as you should be making your payments.

So you should have a period of, say, 18 months before you make a payment, because when you make the loan you have to go out and generate the business, because now you have the economic system, the economic capability of being able to build your business based off your economic condition. So that does not go hand in hand.

So those are the problems that I had with SBA.

Senator WILSON. Mr. Gnecco?

Mr. GNECCO. Well, sir, first of all, they did what their main job was, to help me go through the maze of forms for the 8(a) application. But when I got involved in the closure of the Industrial Tempest Program, they kind of took me in hand and said: Look, that is not the only way you can do business. You can go after direct Government contracts otherwise.

And like I said, they put me onto this firm, Yeargin Associates, who is very, very good at getting you through the Government maze. Now, I do not have any Government contracts in hand right now, but my probabilities of getting one are running around 90 percent right now versus zero.

My reaction towards other government contracts was just that, you know, the paperwork involved was much too heavy and my small company was not up to handling it.

And anyway, Yeargin Associates is really good at cutting through all of that stuff and taking care of that stuff for you. So we are hanging in.

But I think it could make the difference between survival and failure of my company, thanks to the advice and the help that the people at Gregg Washington's firm have given me. They just have a lot of ideas, connections. You know, when you are an engineer sitting in a lab all the time, you do not think about a lot of things that these people do because they are out in the business world a lot more.

I do not know if that makes any sense.

Senator WILSON. Thank you.

Senator ADAMS. Thank you all very much for your testimony.

Senator Wilson has asked and Senator Kerry has asked that we reserve the right to submit questions in writing if that is necessary, and we would appreciate if you could respond to these if these are forwarded to you.

We appreciate very much your testimony. It was articulate and very much to the point, and we thank you all.

Panel number two: Ms. Elizabeth Lazaro, legislative issues director of the National Association of Minority Contractors; Mr. Ron Homer, president, Boston Bank of Commerce; and Mr. S. Kent Gibson, director, grants and contracts administration, San Diego State University Foundation.

We do have a time problem, but we want to be certain that the record is complete. And so I would ask each of the witnesses if they would submit their statements in total, which without objection I will have entered into the record in full.

And then if each would summarize their positions, we would be prepared to hear their testimony. Mr. Gibson, why do we not start with you.

And Senator Wilson and I will remain as long as we possibly can.

STATEMENT OF S. KENT GIBSON, DIRECTOR, GRANTS AND CONTRACTS ADMINISTRATION, SAN DIEGO STATE UNIVERSITY FOUNDATION

Mr. GIBSON. Thank you, Mr. Chairman.

My name is Kent Gibson. I am from San Diego State University and I am pleased to offer the following testimony in support of S. 1848, the bill to provide statutory authority for the Minority Business Development Administration in the Department of Commerce.

I would like to first commend Senator Wilson and Senator Kerry for introducing this important legislation and to thank both Senator Wilson and Congressman Bill Lowery for their active support of minority enterprise over the last several years. Both have been instrumental in the success of our programs.

As a representative of San Diego State University and Foundation, I feel particularly well qualified to comment on 1848. The university has taken a leadership role in the development and expansion of minority business since 1982 and even prior to that, as Senator Wilson has so pointed out. In that year, the Minority Business Development Agency made its first award to the university, to operate the San Diego Minority Business Development Center. After a successful first year of operation, in 1983 the university applied for and received an MBDA award to operate the Los Angeles MBDC, one of the largest of the 100 such centers in the country. Continued success by the university resulted in an award for the Tucson Minority Business Development Center in 1986.

The direct beneficiaries of the university's efforts have been and will continue to be minority enterprise. Since 1982, the staff of our three centers have provided expert management and technical assistance to over 3700 minority entrepreneurs as they attempted to start, save, or expand their businesses. Additionally, the university centers have been successful in securing nearly $85 million in financial packages and over $191 million in new contracts for minority clients. For every Federal dollar spent by the university in support of its three centers, $93 worth of loans and contracts have been secured for minority business men and women, exceeding the national MBDA average of one to $45.

The strong commitment of the university to minority enterprise in principle and in action is the basis for our support of 1848, the Minority Business Development Act of 1987. The most important feature of the Act is the permanency it gives to the Minority Business Development Administration. The annual concerns over budget reductions and the continuous uncertainty about its future existence serve to misdirect attention from MBDA's primary mission, service to the minority business community. This Act will allow for a more consistent and concentrated effort for the accomplishment of this mission.

In addition to continuing support for management and technical assistance and for financial and marketing services, title 3 of the Act specifically provides for management educational development. This is especially appealing to the university because of our belief in the educational process as a precursor to long-term results. In fact, the faculty of our college of business administration have already contributed many hours to the success of our minority business development centers and look forward to an expanded role of providing educational services to minority business persons.

Section 503 of title 5 of the act is very important in that it requires an annual assessment and accounting of the competitive grants program, to include the identification of and explanations for any delays in funding the programs. In our experience, the most common and serious complaints from clients come when the university must cease operation at an existing center because of delayed funding by MBDA. Section 503 will serve to minimize such delays.

We believe that the long-term development of the minority communities can best be achieved through the creation of successful businesses and the expansion of existing businesses in these communities. Successful businesses create jobs; jobs provide financial independence for individuals and families. The Government's investment in business development activities such as those supported by the MBDA provides the long-term opportunity to ease poverty problems in our minority communities and to lessen our minority citizens' dependence on entitlement programs to meet basic living expenses. We are convinced that MBDA programs are an excellent investment of Federal funds.

In conclusion, the university and the foundation fully support the Minority Business Development Act as a necessary step toward stabilizing management and technical assistance to minority enterprise. In the absence of this legislation, I fear that the provision of such assistance will become intermittent or perhaps nonexistent in the future.

Thank you.

Senator **Adams**. Thank you, Mr. Gibson.

Mr. Homer, we have your statement in full, which Senator Wilson and I have read. And I would suggest that you might want to summarize it and give us the highlights of the particular points you wish to make.

Mr. Homer.

STATEMENT OF RONALD A. HOMER, PRESIDENT, BOSTON BANK OF COMMERCE, AND MEMBER, NATIONAL BANKERS ASSOCIATION

Mr. **Homer**. Thank you. Good morning, Mr. Chairman and members of the committee.

I am Ronald A. Homer, President of the Boston Bank of Commerce and past Chairman of the Board of the National Bankers Association.

Mr. Chairman, as you are probably aware, the Boston Bank of Commerce—and I thought Senator Kerry would be here, but it is New England's only black-owned bank, and was founded in 1982 by a $22,500 MBDA technical assistance grant. The bank has subsequently grown to over $50 million in total assets and it has operated profitably over the past four years.

I would like to add that the Boston Bank of Commerce, which superseded a failing bank, is now recognized within the city of Boston as a major financier of affordable housing and business opportunities for minorities. For the past two years, our bank has been one of three finalists for the Greater Boston Chamber of Commerce Small Business of the Year Award, and so we are also a small business.

In 1985 and 1987, we were named by the Boston Herald as one of the ten best success stories in the New England business community, along with companies like Digital, Reebok, and Lotus Development Company.

The National Bankers Association is celebrating its sixty-first year as a trade association for the nation's minority and women-owned banks. The National Bankers Association serves as an advocate for its member banks on legislative and regulatory matters and as a clearinghouse for information critical to sound, profitable banking.

NBA member banks are located in 67 cities and 38 states, with over $3 billion in loans, many of which are to minority-owned firms. Therefore, we have a vested interest, and much of our assets are contained in the same firms which this bill is directed towards.

I therefore appear before the committee both in my capacity as president of a financial institution, as a representative of the National Bankers Association, and as a small business.

There is no question in our association's collective wisdom that there is a continuing need for the Minority Business Development Agency as a separate and distinct agency from the Small Business Administration. We believe there is an unequivocal difference between the functions and activities of SBA.

The SBA seeks to ensure that small business concerns receive a fair portion of Federal government business, while MBDA seeks to remove social and economic restraints and to protect the fundamental rights of minority businesses to fully participate in this nation's public and private sector economic structure.

Moreover, not only is the proposed transfer of MBDA to SBA a bad policy option, but there is also a multitude of conceptual problems associated with combining two agencies with conflicting, rather than complementary objectives. One question that looms large in our minds is that after the transfer is complete, how can MBDA continue servicing those minority business entities that do not meet qualifying size standards or type standards to which SBA is authorized and the statute expressly limits its assistance?

To our knowledge, banks do not qualify for SBA assistance, and the only program available to banks through SBA is in the loan guarantee program. To state it another way, one does not have to be a legislator to understand the need for substantial legislative action by this Congress to reconcile the many problems associated with any attempt to combine these two agencies.

S. 1848 provides authorization for private sector market development, either directly or in cooperation with private sector organizations. Such development would include the provision of capital, marketing, management, and technical assistance.

Our banks are sensitive to the difficulties confronting minority businesses which often center around deficiencies in the abovenamed areas. Thus, we are particularly interested in examining opportunities to engage in cooperative efforts with the newly empowered MBDA as specified under S. 1848.

One big advantage of government working in cooperation with the private sector and in particular with local minority banks is that we not only provide efficient and cost effective financial services, but funds deposited in our banks are used primarily to finance local housing and other community development projects, as well as minority business enterprise.

We believe that, while the issues contained in S. 1848 are difficult challenges for the nation, S. 1848 as well as H.R. 1769, filed by Congressman Kweisi Mfume in the House, represent the most comprehensive approach in the area of economic opportunity and equity for minority businesses. Therefore, we support both bills and their passage.

Thank you.

[The statement follows:]

Statement of Ronald A. Homer, President, Boston Bank of Commerce, and Member, National Bankers Association

Good morning Mr. Chairman and members of the committee. I am Ronald A. Homer, president of the Boston Bank of Commerce, and past chairman of the board of the National Bankers Association (NBA).

Mr. Chairman, as you are probably aware, the Boston Bank of Commerce (BBC) is New England's only black owned commercial bank and was founded in 1982 with the aid of a $22,500 MBDA technical assistance grant. The bank has subsequently grown to over $50 million in total assets and has operated profitablly over the past three years. I would like to add that the BBC, which superseded a failing bank, is now recognized within the city of Boston as a major financier of affordable housing and business opportunities for minorities.

The National Bankers Association is celebrating its 61st year as the trade association for the nation's minority and women-owned banks. NBA serves as advocate for its member banks on legislative and regulatory matters and as a clearinghouse for information critical to sound profitable banking operation.

I appear before the committee this morning both in my capacity as president of a minority owned financial institution and as representative of NBA. Accordingly, I would like to thank you for giving me the opportunity to express the collective views of the NBA membership on S. 1848, the Minority Business Development Act of 1987.

THE CONTINUED NEED FOR MBDA

Mr. Chairman, it is no secret that over the years, blacks and other racial and ethnic minorities in this country have suffered the effects of invidious racial discrimination involving longstanding practices in the public and private sectors which impair the ability of the minority business community to access resources and markets essential to economic viability. Both Congress and various administrations have sought to formulate remedial programs designed to counteract the perpetuated inequities resulting overt and covert social and economic discrimination.

These remedial programmatic efforts have received the support of the Congress since 1953, when a provision promoting minority opportunity in Government procurement was attached to the Small Business Act, and as recently as 1986, when section 1207, Contract Goals for Minorities, was enacted as part of Public Law 99-661, The National Defense Authorization Act for fiscal year 1987.

Today, we are not here to pass judgment on what Congress has done to remedy past discrimination. Instead, we have been asked to examine a program established by the executive branch and to give our views on whether there remains a compelling need for a special Federal program within the Department of Commerce to provide socially and economically disadvantaged persons "the opportunity for full participation in our free enterprise system." If this committee determines that there is indeed a legitimate interest to be served by such a program, the next inquiry will involve which agency, SBA or the Department of Commerce, is best suited for addressing this need.

While not considered a traditional preference program such as the set-aside provisions enacted by Congress, the Minority Business Development Agency (MBDA), initiated by the Nixon administration in 1969, was created to preserve and strengthen minority businesses. It is notable that this is the only agency of the U.S. Government created specifically to establish policies and programs to promote the creation and expansion of businesses owned by minority Americans.

The words contained in the preamble to Executive Order 11625, under which the MBDA currently operates, and which closely parallel those contained in S. 1848, clearly identify a compelling Government interest in "obtaining social and economic justice" and "improving the functioning of our national economy." This prescription for developing minority businesses further establishes the means of redressing the effects of prior discrimination which have impaired the growth and development of minority businesses through a cabinet level agency under direct supervision of the Secretary of Commerce.

Since MBDA's inception, no adminstration, until 1987, had formally challenged the propriety of its operation from within the statutory and policy framework of the Commerce Department, the only Federal agency charged with the responsibility of assisting in the growth of minority businesses. The need to devote Federal resources to assist minority businesses in overcoming economic disadvantges is no less apparent today than it was almost two decades ago during MBDA's embryonic stages, as evidenced by continued enactment of Federal remedial programs providing preferential treatment for certain racial and ethnic minority groups.

THE TRANSFER PROPOSAL TO SBA

In 1987, and again this year, the current administration has proposed, albeit in very ambiguous language, to transfer the functions of MBDA to the Small Business Adminstration (SBA). I would submit to this committee that this is an old bureaucratic approach to quietly killing an agency program without creating public clamor. By transferring and downgrading the functions of MBDA to SBA, budget cut burdens imposed on SBA will necessitate substantial reductions in appropriation allocations to MBDA resulting in ineffective operation, and ultimately total elimination.

Proponents of the adminsitration's proposal suggest that such a transfer will consolidate similar programs thus allowing for improved coordination. These same proponents argued several years ago that SBA was so replete with corruption and mismanagement that it was no longer effective or needed. How this administration took the grant leap from leveling scathing allegations at SBA for ineffectively carrying out its admittedly broad mandate, to advocating an even broader mandate to encompass functions of another agency, resulting in a more efficient and enhanced provision of services to the small business community and the socially and economically disadvantaged business community, is beyond my comprehension.

NBA believes there is an unequivocal difference between the functions and activities of SBA, which seeks to ensure that small business concerns receive a fair portion of Federal Government business, and MBDA, which seeks to remove stigmatic social and economic restraints and to protect the fundamental rights of minority businesses to fully participate in this Nation's public and private sector economic structure. Moreover, not only is the proposed transfer simply a bad policy option, but there are a multitude of conceptual problems associated with combining two agencies with conflicting rather than complementary objectives.

One question that looms large in my mind is, after the transfer is complete, how can MBDA continue serving those minority business entities that do not meet qualifying size standards to which SBA's authorizing statute expressly limits its assistance? To state it another way, how can a transfer of MBDA's function to SBA, in and of itself, alter statutory limitations on the kinds of businesses it can serve? One need not be a legislator to recognize the need for substantive legislative action by this Congress to reconcile the many problems associated with any attempt to combine these two agencies.

DEPARTMENT OF COMMERCE; THE PROPER AGENCY

The creation of MBDA within the Department of Commerce in 1969, was a carefully thought out approach to address the continuing intrinsic problems facing minority business and a recognition of the Federal Government's inextricable role in removing the barriers which inhibit sustained growth and development. That administration knew, as did many of its successors, that SBA's mandate to provide investment and Government procurement assistance to certain qualifying small businesses could not begin to challenge a system that had for almost two hundred years denied even the most basic civil rights to its less favored citizens. The issue that confronted that administration in 1969, and which confronts this committee today, is how can this Government provide for equitable participation of minorities in the mainstream of American business, and how can Congress best assist minority business in overcoming social and economic injustices which have impeded their participation in the past.

While these issues present difficult challenges for Congress, the approach taken by Senators Kerry and Wilson in their bill, S. 1848, which outlines well defined and coordinated Federal programs to provide access to resources and markets to minority businesses, offers an appropriate starting point for our discussion. NBA strongly believes that the goals set out in S. 1848, and a similar version, H.R. 1769, filed by Congressman Kweisi Mfume in the House, which authorize a Minority Business Development Administration in the Department of Commerce, represent the most comprehensive approach in the area of economic opportunity and equity for minority business.

SUMMARY

Title I: provides authorization for private sector market development either directly or in cooperation with private sector organizations. Such development would include the provision of capital, marketing, management, and technical assistance. NBA is sensitive to difficulties confronting minority businesses which often center around deficiencies in working capital. Thus, NBA is particularly interested in examining opportunities to engage in cooperative agreements with the newly empowered administration to provide financial assistance to disadvantaged firms through its network of financial institutions.

One big advantage of Government working in cooperation with local minority banks is that we not only provide efficient and cost effective financial services, but funds deposited in minority banks are used primarily to finance local housing and other community development projects, as well as minority business enterprise, which is fully consistent with MBDA's objective in connection with public/private sector cooperation.

Titles II, III, and IV, which respectively provide disadvantaged minority firms with access to equity capital, management and education development, and research and information, are all essential elements of economic stability.

Title V provides the authorization to perform the duties under the act including appropriations and termination of authority under Executive Order 11625. We believe such authorization encourages a consistent approach to strengthening minority business in America.

CONCLUSION

As the authors of S. 1849 accurately point out, MBDA has been subjected to continual uncertainty about its role and its future. This bill, to which the National Bankers Association gives its full support, removes the damaging uncertainty MBDA has faced in the past and clearly identifies the significant role it must play in the future if we are to, in the words of the authors, "obtain social and economic equality" and "improve the functioning of our national economy."

This concludes my testimony.

Senator **Adams**. Thank you, Mr. Homer.

Ms. Lazaro, we have the statement of the National Association of Minority Contractors. We would be pleased to receive your summary of it or the highlights that you feel we should concentrate on. Ms. Lazaro.

STATEMENT OF ELIZABETH S. LAZARO, LEGISLATIVE ISSUES DIRECTOR, NATIONAL ASSOCIATION OF MINORITY CONTRACTORS

Ms. **Lazaro**. Yes, Mr. Chairman. Good morning, members.

Good morning, Mr. Chairman and distinguished members of the Committee. My name is Elizabeth S. Lazaro, and I am testifying this morning on behalf of the National Association of Minority Contractors (NAMC) which is located right here in Washington, D.C. I am the Legislative Issues Director for NAMC. Only recently have I moved here from Portland, Oregon, where I was active in the NAMC Chapter there. It is my pleasure to testify before you today.

By way of introduction, the National Association of Minority Contractors (NAMC) was established in 1969 to address the needs and concerns of minority construction contractors. Currently, we have 3,500 members in 46 states, the District of Columbia and the Virgin Islands. In addition, we have 40 chapters and affiliates across the country.

We provide services to minority-owned construction firms in the areas of information-dissemination, identification of public/private procurement opportunities, specialized education and training and educational advocacy. It is that last item that brings me here today—to advocate in support of S. 1848, the Minority Business Development Act of 1987.

In light of recent events, the importance of this bill has taken an added urgency. Even as we discuss the merits of this bill today, the administration is seeking once again to transfer the Minority Business Development Agency (MBDA) to the Small Business Administration through the budget process.

For purposes of review the MBDA, formerly the Office of Minority Business Enterprise (OMBE), was established by the Nixon Administration in 1969 by Executive Order 11458 and two years later was charged with additional functions by Executive Order 11625. After more than a decade of developing and coordinating, a national program for minority business enterprise, OMBE was reorganized in 1980 to become the Minority Business Development Agency (MBDA).

Since that time, the MBDA has provided a number of constituent services to minority businesses, particularly through its nationwide network of Minority Business Development Centers (MBDCs), which are designed to provide management and technical assistance to minority business enterprises (MBEs). Over the years, the MBDA has also provided grants to non-profit minority business trade associations, allowing them to effectively work on behalf of their minority business constituents.

Thus, it came as a shock when, in early January 1987, the administration proposed in its fiscal year 1988 budget request to Congress to transfer the MBDA from the Department of Commerce to the SBA.

Of great concern to minority business organizations was the fact that no clear rationale was articulated by the Administration to support such a transfer.

Vague arguments hinting that the MBDA and SBA perform duplicative services were dismissed as being out of hand last year during similar hearings. The MBDA's programs, after all, are designed to encourage the economic competitiveness of more than 850,000 minority firms in the general marketplace. The SBA's minority business programs focus almost entirely on set-asides from the Federal sectors for the 3,000 or so minority firms presently certified in the SBA 8(a) program.

Furthermore, the MBDA is not limited, as is the SBA, by size standards as to the type of minority businesses it can assist.

Transfer advocates also argue that, because of the similarity of roles between the two agencies, the SBA would be a more suitable home for the MBDA than the Department of Commerce. The problem with such an argument, however, is that the roles of the SBA and MBDA are not similar and sometimes even conflict.

For example, the SBA operates its small business development centers program through colleges and universities for research purposes. No specialized assistance is provided to minority firms by SBA's SBDC's.

It must be remembered that MBDA is the only Federal government agency or sub-agency whose sole function is the promotion of minority business development. The SBA, on the other hand, has a much wider legislative mandate. The bulk of its constituents are majority-owned small businesses. Generally speaking, majority-owned businesses regard advances by minority entrepreneurs in the economic marketplace as shrinking business opportunities for which majority entrepreneurs can compete.

One only has to look at the negative stance such organizations as the Associated General Contractors, American Subcontractors Association, and the National Federation of Independent Businesses have taken toward minority business set-aside programs to dramatize this point.

Clearly then, because of the SBA's overall constituency, it could not effectively advocate for a minority business interest in an unrestrained fashion. However, there is an even more pressing argument as to why the MBDA should remain as is.

Being part of the Department of Commerce, the MBDA has direct access to the mainstream of America's business community and Cabinet-level resources that facilitate assistance to minority entrepreneurs. Because of its organizational alignment within the Department, the MBDA has facilitated an increase in corporate America's support for minority business enterprise, as well as the level of major corporation involvement in the development of minority-owned firms.

MBDA reports that, because of its relationship with the various minority business trade organizations, corporate America did over $8 billion worth of business with minority entrepreneurs in fiscal year 1986.

Such arguments effectively killed the Administration's attempt to transfer the MBDA to the SBA last year. Both houses of Congress rejected the transfer. The fact that the only Federal government designed to advocate for minority business interests could be diluted so easily, however, sent chills through the minority business community.

It was this last concern that prompted this legislation which we are discussing today, to codify the MBDA's permanent existence within the Department of Commerce and thereby solidify its currently fragile existence and protect it forever against future mingling.

As can be seen by the Administration's recent budget request, our fears were not unfounded. It would appear that the Administration would at least wait until the House and Senate finish detailed deliberations on this issue before attempting the same arbitrary transfer that failed last year.

Worse yet, the Administration has not even put forth any new justifications for such a transfer. Thus, NAMC submits that not only should this bill be passed and enacted as soon as possible, but that the current proposed transfer from the MBDA to the SBA be rejected as well.

Thank you.

Senator ADAMS. Thank you very much, Ms. Lazaro.

Senator Wilson and I have discussed this and we will submit our questions in writing.

We particularly want to thank the witnesses and I appreciate your pointing out the inherent conflict within SBA of placing this within it, and also the fact that you have access to a great variety of private concerns if you are in the Commerce Department as compared to really the set-aside program, which has been the SBA operation up until this time.

Thank you all very much for your testimony.

The committee will stand in recess subject to the call of the chair.

[Whereupon, at 11:45 a.m., the committee was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF DANIEL H. YOUNG, MAYOR, CITY OF SANTA ANA

Good Morning. My name is Dan Young and I am the Mayor of the City of Santa Ana. I appreciate the opportunity to submit testimony before the Senate Committee on Commerce, Science and Transportation regarding S. 1848, the Minority Business Development Act. I would also like to take this opportunity to discuss the City of Santa Ana's Minority Business Development Agency and how recent federal budget cutbacks are endangering the existence of this important program.

The City of Santa Ana Minority Business Development Agency strongly supports the Minority Business Development Act as introduced by Senator Kelly and Senator Wilson. S. 1848 will provide socially and economically disadvantaged individuals the opportunity for full participation in our free enterprise system by establishing a Minority Business Development Administration. This Administration will promote and administer programs in the private and public sectors to assist the development of businesses owned and operated by the disadvantaged.

The Minority Business Development Agency (MBDA) as it exists today was established by Executive Order in 1969 to function within the Department of Commerce. However, its continued existence has been threatened by efforts to transfer the MBDA to the Small Business Administration (SBA). Transferring the MBDA to the SBA would not benefit minorities since SBA programs are designed to address the general needs of small businesses, in addition to minorities. The MBDA, however, is the sole government agency exclusively dedicated to the development of minority business enterprises. MBDA accomplishes this through operation of three program elements: First, Minority Business Development Centers, awarded through open competition to private and public organizations to provide comprehensive management and technical assistance to minority business enterprises; second, State and Local Government programs, awarded to States and municipalities to incerase procurement opportunities and financial resources available through the public sector to benefit minority business enterprises; and third, special projects, each addressing a specific aspect of business development through unique research or program offerings.

For these reasons, the City of Santa Ana Minority Business Development Agency strongly supports S. 1848 and encourages members of the Committee on Commerce, Science and Transportation to favorably report this legislation for full consideration by the Senate.

I would now like to tell you a little bit about the City of Santa Ana's Minority Business Development Agency, which was established last August after the City was awarded a grant from the Minority Business Development Agency under the State and Local Governments program. Santa Ana expected to receive $100,000 per year for three years for development of its program, and during this period would focus on increasing City purchases from minority-owned businesses while also improving procurement opportunities for minority-owned businesses. The City is required to match the grant, thereby giving the program a $200,000 annual budget.

The City of Santa Ana awards approximately $45 milion per year in contracts, and has targeted $2 million per year for award to minority-owned businesses. During the first two months of operation under the MEDA grant, the City awarded over $650,000 in contracts to minority-owned businesses, exceeding our goal for that period by over 100%. Other accomplishments since the program's inception include the establishment of a $50,000 Working Capital Revolving Loan Program, implementation of a system for referring City bid opportunities to community-based minority organizations, presentation of training programs to over 400 individuals, and more.

However, the House and Senate Appropriations Subcommittee on Commerce, Justice, and State, the Judiciary, and Related Agencies eliminated funding for the State and Local Governments Programs within the MBDA's fiscal year 1988 budget, an action which represents a reduction of $1 million from the MBDA's previous budget. The appropriation bill was included in the Fiscal 1988 Continuing Resolution passed by Congress. As a result, the City of Santa Ana will not receive the remaining $200,000 in federal funds originally awarded. Without these funds the future of the City's Minority Business Development Program becomes uncertain. For the present, elimination of the MBDA program would leave the City unable to attain its overall goals in assisting minority-owned businesses.

Following approval of the grant from the MBDA the City of Santa Ana began working to develop and implement a three-tiered initiative within the City that will revise procurement procedures to benefit minority-owned businesses. This initiative included implementing monthly training programs, developing and implementing a uniform bidder's list application process, and computerization of a vendor and contract awards database to facilitate and track City procurement activity.

The training programs include workshops and direct assistance in financing, marketing and advertising, contracting with the City, and more. The uniform bidder's list will standardize information available on listed vendors to enable purchasing agents to readily identify bidders with adequate geographic coverage, financial capacity, inventory capacity and bonding to respond to City procurement opportunities. It will also provide a means for ensuring that bid opportunities can be referred to minority-owned businesses on a regular basis. Finally, the computerization of a vendor and contract awards database would provide greater information on contracting activities undertaken by the City, to facilitate development of future initiatives to benefit small, minority and women-owned businesses.

The discontinuation of federal funding for the Minority Business Development program in the City of Santa Ana will terminate efforts to pursue initiatives which are designed to benefit minority-owned businesses. I urge you to consider continuation of the State and Local Governments program in the develpment of a Minority Business Development Administration.

Congress must ensure opportunities for full participation in our free enterprise system by the socially and economically disadvantaged if we are to attain social and economic equality for all people. The disadvantaged have not yet entered the economic mainstream in numbers proportionate to their representation because they have suffered the effects of discriminatory practices and attitudes over which they have no control. These conditions can be improved by ensuring that resources and opportunities necessary for the development of business enterprises owned and operated by the disadvantaged are made available through creation of a Minority Business Development Administration to continue the work of the MBDA and its funded organizations.

Thank you for the opportunity to submit the views of the City of Santa Ana on this matter.

STATEMENT OF NATIONAL FEDERATION OF FEDERAL EMPLOYEES' LOCAL 2008

Mr. Chairman and members of this committee, it gives me great pleasure to submit testimony regarding our support for congressional passage of S. 1848, a bill introduced by Senators Pete Wilson, R-Calif., and John Kerry, D-Mass., to preserve and strengthen the Minority Business Development Agency within the U.S. Department of Commerce.

Local 2008 of the National Federation of Federal Employees (NFFE) has represented the more than 240 employees at the Minority Business Development Agency since 1981. We believe we are more than qualified to express our support for S. 1848 and any other congressional initiatives introduced in the House and Senate to strengthen the MBDA program and the federal government's overall minority business development program.

MBDA employees stand firmly committed to the principles and procedural guidelines expressed in S. 1848. First, by establishing a permanent home within the Commerce Department, a more solid foundation would have been established upon which to base the MBDA program. MBDA, as you know, now currently operates under a presidential executive order first issued by former President Richard Nixon in 1969. We believe Executive Order 11458 and later E.O. 11625, are two of the longest running executive orders in U.S. government history. As you also know, presidential executive orders can be revoked by the single stroke of a president's pen. We strongly believe that the issue of minority business development is too significant to be erased by the single stroke of a president's pen. Therefore, we strongly believe that congressionally-mandated operating authority for MBDA is precisely the correct course of action to preserve the MBDA program mission and strengthen our overall efforts.

S. 1848 also proposes that the new Minority Business Development Administration would be headed by an administrator. This is different from the House version, H.R. 1669, which calls for the agency to be headed by an assistant secretary of Commerce, which Local 2008 vigorously endorses. In the chain of command at the Commerce Department, assistant secretaries rank higher than agency administrators and directors. And it is for that reason, and the fact that an assistant secretarial post is far more prestigious than an administrator that we strongly recommend that S. 1848 be amended. And that the new MBDA be headed by an assistant secretary rather than an administrator.

We are in total agreement with the other provisions of S. 1848 and its House companion H.R. 1769.

In closing, we would like to end with the following comments made by a former Ford Motor Company executive. He said: "By supporting legitimate minority-owned companies in becoming independent, competitive, mainstream enterprises, industry is helping people get off the welfare rolls and into the workplace, thereby reducing both corporate and individual taxes. More importantly, by giving minority entrepreneurs the opportunity to succeed—on their own merits—industry is helping to provide the role models inner-city youth need so badly. Secondly, it simply makes good business sense to do business with minority firms. Minorities now comprise more than 20 percent of the U.S. population. They are an economic force to be recognized—and reckoned with. By participating in minority enterprise, industry can appeal to a market that has long been ignored. In short, if America is to meet the global economic challenge it is now facing, we will need all her people—their talent, their new ideas their potential for entrepreneurship—to come out on top."

As a former deputy director of the agency said in an interview with *Black Enterprise* magazine in 1986: "MBDA is a big sleeper, and given proper support, it could prove to be a major vehicle to connect minority businesses with markets and capital."

This ends the testimony of Local 2008. We would be glad to answer any questions from the Chairman and members of the committee.

ENRIQUEZ
CONSTRUCTION COMPANY
License No. 226677
1416 Beale Avenue
Bakersfield, California 93305
(805) 325-8896

2/20/88

Mr. Pete Wilson
United States Senator
720 Hart Senate Office Bldg.
Washington, D. C.

Dear Senator Wilson:

I have been a contractor in California for over 25 years. It has been a real struggle and I have worked hard. I currently have 15 employees working for me and I want to express some support for several things that you have done.

First of all, Your support for the Bakersfield Business Development Center here locally has been appreciated. This agency receives funding from your federal department M.B.D.A. This agency has provided me with much needed support and assistance. I just recently moved into a new facility that will appriase at $350,000. I plan to double my employees during 1988 and hopefully again in 1989. This has all been possible through two things, my hard work and assistance from the Bakersfield Business Development Center.

Also, I want to express my support for your bill that you introduced, SB 1848. This is something that we all will benefit from.

Thank you for the opportunity to address these issues and I hope that you will visit us in Bakersfield one day soon.

Sincerely,

John F Enriquez

John F. Enriquez
President

Vela Steel Products
6829 McComber Street
Sacramento, CA 95828

February 23, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D.C. 20510

Dear Sir:

The Sacramento Minority Business Development Center, funded by MBDA, has assisted our agency by operating a Plans Room which provides valuable contract leads.

With their assistance, of the MBDC, my firm has obtained over $3,291,808 in additional contracts over the last two years.

We believe that the United States Department of Commerce MBDA should have permanent legislative authority and status. This would insure the provision of much needed management assistance to minority owned firms. It is the only program we know of that has a favorable and effective track record of helping minority firms to contribute to the economic development of their communities and the economy as a whole.

Therefore, we support and encourage the passage of Senate Bill 1848.

Sincerely,

William D Vela

William Vela
Vice President

NEDA
SAN JOAQUIN VALLEY, INC.

BUSINESS DEVELOPMENT CENTERS
Funded By: MINORITY BUSINESS DEVELOPMENT AGENCY (M.B.D.A.) U.S. DEPARTMENT OF COMMERCE

February 23, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D.C. 20510

Dear Sir:

Senate Bill 1848 is fully supported and welcomed by our office. We are a MBDA funded agency serving minority owned firms in the Sacramento, California Standard Metropolitan Statistical Area.

In our two years of operation, we have assisted nearly 400 minority-owned businesses in obtaining loans and contracts from private sector firms, financial institutions and government agencies. The value of these awards amounts to $50 million dollars. In many cases, these firms would not have achieved their goals without our assistance.

The tenuous status of MBDA has often interfered with our progress as we attempted to build a reputation of high quality service and permanence in our community. Your bill would dispel these factors as well as the continuing debate about where MBDA belongs. As an agency with permanent status, MBDA can more rapidly effectuate the improvement necessary to provide even greater numbers of business successes.

We urge you and your staff to continue your efforts in support of S.B. 1848.

Sincerely,

Melissa Cadet

Melissa Cadet
Project Director

MMC:lrs

530 Bercut Drive, Suite D • Sacramento, California 95814 • (916) 443-0700

NEDA
SAN JOAQUIN VALLEY, INC.

BUSINESS DEVELOPMENT CENTERS
Funded By: MINORITY BUSINESS DEVELOPMENT AGENCY (M.B.D.A.) U.S. DEPARTMENT OF COMMERCE

February 24, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D.C. 20510

Honorable Senator Wilson:

This letter is in support of your proposed S.B. 1848 which would give MBDA permanent status. As a recipient of MBDA funding to operate the Fresno MBDC, we are in a position to point out the immediate benefits the individual MBDCs under MBDA guidance lend to their particular areas minority entrepreneurs.

In 1986 thru 1987, the Fresno MBDC has assisted 400 minority businesses and helped them obtain in excess of $22,000,000 in procurement and financial loans. Without the proposed bill passage ensuring the continuity of the MBDC services, the future of any minority entrepreneurs support program remains opaque at best.

Similarly, we are certain that the proposal to transfer MBDA to SBA is not a substitute to the MBDA program because of inherent conflict of interest under the SBA bond guarantee program, the loan program and the 8(a) program as it relates to the actual preparation and the funding consideration of projects.

Over the years, we have worked with a multitude of minority entrepreneurs towards attaining success and self-sufficiency; MBDA's performance in that regard is very well documented. Letting that return on investment be known will lend support to your bill S.B. 1848.

Respectfully,

Amer Makki

Amer A. Makki
Project Director

2010 N. Fine Avenue, Suite 103 • Fresno, California 93727 • (209) 252-7551

La Villa
Restaurant
"Experience Old Mexico Cuisine"

158 N. Valencia
Woodlake, California 93286
Phone 564-3730

Febuary 15, 1988

HON. PETE WILSON
U.S. SENATOR, CALIFORNIA
720 Hart Senate Office Building
Washington D.C. 20510

Dear Senator Wilson:

This letter is to thank you for your efforts of behalf of small and minority firms since you took office. I want to also thank you for introducing SB 1848. MBDA has provided assistance to me through the Business Development Center in Bakersfield. I have started a small business and it is now one year old and employs 4 persons. These are all new jobs and will help the economy.

Once again, on behalf of minority small business, thank you and the best of luck in 1988.

Sincerely,

Ramon Villalvazo

Ramon Villalvazo, Owner

February 24, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Wilson:

In reference to Senate Bill 1848, I wish to extend my support for this legislation that you have recently introduced.

MBDA has assisted minority owned firms in good faith and has made progress in procuring business opportunities for the minority community.

MBDA should continue to remain a separate entity from SBA to better serve those businesses that need special attention.

Your efforts are very much appreciated.

Sincerely,

Albert R. Prince

Albert R. Prince
941 E. Brundage Lane, #A
Bakersfield, CA 93307

Rotomixx Concrete Systems
Industrial Implements, Inc.
6121 Warehouse Way • Sacramento, California 95826
P.O. Box 660847 Sacramento, CA 95866-0847
Bus (916) 386-1173

February 25, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D.C. 20510

Dear Sir:

The Sacramento Minority Business Development Center, funded by **MBDA**, has assisted our business by developing an investment business plan.

With the assistance of the **MBDC**, our firm should locate investment capital in the amount of ONE MILLION DOLLARS this year.

We believe that the United States Department of Commerce **MBDA** should have permanent legislative authority and status. This would insure the provision of much needed management assistance to minority owned firms. It is the ONLY program we know of that has a favorable and EFFECTIVE track record of helping minority firms to contribute to the economic development of their communities and the economy as a whole.

Therefore, we support and encourage the passage of Senate Bill 1848.

Sincerely,

Felesta Smith,
President,
Industrial Implements Inc.

SHW Corporation
6121 Warehouse Way
Sacramento, CA 95826

February 25, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington D.C. 20510

Dear Sir:

The Sacramento Minority Business Development Center, funded by **MBDA**, has assisted our agency by development of an investment business plan.

With the assistance of the **MBDC**, our firm should locate investment capital of TWO MILLION DOLLARS this year.

We believe that the United States Department of Commerce **MBDA** should have permanent legislative authority and status. This would insure the provision of much needed management assistance to minority owned firms. It is the ONLY program we know of that has a favorable and EFFECTIVE track record of helping minority firms to contribute to the economic development of their communities and the economy as a whole.

Therefore, we support and encourage the passage of Senate Bill 1848.

Sincerely,

Leonard Hill,
Secretary,
SHW Corporation

EQUITY MORTGAGE
1401 El Camino Ave., Ste. 350
Sacramento, CA 95815
(916) 929-9134

February 25, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D. C. 20510

Dear Sir:

The Sacramento Minority Business Development Center, funded by MBDA, has assisted our agency by referring a number of minority clients for loan purposes.

With their assistance, of the MBDC, my firm should locate funding in the amount of $3,000,000.+ this year.

We believe that the United States Deparment of Commerce MBDA should have permanent legislative authority and status. This would insure the provision of much needed management assistance to minority owned firms. It is the only program we know of that has a favorable and effective track record of helping minority firms to contribute to the economic development of their communities and the economy as a whole.

Therefore, we support and encourage the passage of Senate Bill 1848.

Sincerely,

Gus Prosise
President

NEDA
SAN JOAQUIN VALLEY, INC.

BUSINESS DEVELOPMENT CENTERS
Funded By: MINORITY BUSINESS DEVELOPMENT AGENCY (M.B.D.A.) U.S. DEPARTMENT OF COMMERCE

February 25, 1988

Honorable Senator Pete Wilson
720 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Wilson:

As an operator of four Minority Business Development Centers in Central California, and a seasoned advocate for minority business development, we strongly support your Senate Bill 1848 which will serve to give permanent legislative authority to the Minority Business Development Agency within the Department of Commerce.

The agency has now been in existence for over sixteen years under Executive Order 11625. Great strides have been made during that time in developing a viable minority business sector of the american business community. However, the barriers to participation that were enumerated in 1972 still exist today, and the MBDA is the most effective tool to overcome those barriers. Being the only federal agency whose sole purpose is to promote the growth and development of minority businesses through the provision of management and technical assistance, the agency is acutely aware of the problems faced by minority entrepreneurs. This level of empathy has not, and cannot be achieved, by any other federal agency, including the SBA.

In passing SB 1848, the Senate would send a clear message to the minority community, and to other Federal agencies, that the government is solidly committed to equal opportunity for entrepreneurial success for all of its citizens.

On behalf of the over 3,000 minority owned businesses which we have served, we applaud your efforts in authoring SB 1848.

Sincerely,

William A. Thomas
Executive Director

2010 N. Fine Avenue, Suite 103 • Fresno, California 93727 • (209) 252-7551

NATIONAL COUNCIL OF
LA RAZA
Raul Yzaguirre, President

National Office
Twenty F Street, N.W.
Second Floor
Washington, D.C. 20001
(202) 628-9600

February 29, 1988

Hon. Pete Wilson
Room SH-720
United States Senate
Washington, D.C. 20510

Dear Senator Wilson:

It has come to my attention that you have introduced legislation (S. 1848) that would assist in preserving the Minority Business Development Agency (MBDA). Please be advised that the National Council of La Raza supports the legislation, and will work with you toward its enactment.

As our analysis "Hispanic Business Ownership: A Profile" shows, Hispanics are severely underrepresented as business owners. Moreover, most Hispanic-owned firms are very small, with no paid employees. There is, therefore, a clear and continuing need for a federal commitment to assist Hispanic and other minority entrepreneurs.

We are therefore pleased that S. 1848 would provide a statutory underpinning for the Minority Business Development Agency, to ensure that managerial and technical assistance will continue to be made available to minority-owned firms.

If we can be of further service to you, please do not hesitate to contact me.

Sincerely,

Raul Yzaguirre
President

enclosure

RY:ck

Program Offices — Phoenix, Arizona — Edinburg, Texas — Los Angeles, California
LA RAZA: The Hispanic People of the New World

The Viability of the Minority Business Development Agency's (MBDA) Minority Business Development Center (MBDC) Program

PURPOSE

This paper provides a brief summary and analysis of MBDA's MBDC program through background information, past performance data and the most current information available for FY 1987.

MBDA is the only Federal Government entity with the sole and specific mandate to improve the plight of minority business at all levels of our national economy. It is the only agency that provides a broad range of high quality private sector management and technical assistance to minority enterprise persons/firms while actively working to eliminate or reduce the traditional institutional barriers experienced by minority business.

In addition, MBDA is the first government agency to charge service fees to clients of its programs to offset hired professional services. This concept of cost sharing has been employed successfully since 1981.

The Background Information section will touch upon the features of the program which contribute to its successful workability and continuity. They are as follows:

- Business Development Assistance Strategy
- Competitive Program Feature
- Federal Funding Amount
- Cost Sharing Requirement
- Client Fees

Past Performance data/highlights are provided to exemplify recent accomplishments and to emphasize the success of MBDA and the MBDC program. The most current information available on the MBDC program is for FY 1987. It is included as an attachment and is in two parts: Part 1 - Quantitative Performance Goals vs. Actual Performance, and Part 2 - Return on Funding (ROF).[1] This data is provided to illustrate how the MBDC projects performed for the past fiscal year, and to show the return that the Federal Government received for each dollar invested in the program.

BACKGROUND

The MBDC program is the U.S. Government's largest provider of business development services to minority persons/firms at $26.2 million in Federal funding. The program's business development assistance strategy entails combining automated business information systems with quality consultant services to assist in the establishment and operation of competitive minority businesses. The process includes emphasis on the coordination, and brokering of public and private sector resources on behalf of minority individuals and firms as clients of the MBDC.

MBDCs are competitive and are open for bid to individuals, non-profit and for-profit organizations, state and local governments, American Indian tribes, and educational institutions.

1/ The attachments were not reproducible.

MBDC operators are required to share the cost of its operations with the Federal Government. The requirement is 15% of the total project cost which must be met through non-Federal contributions.

In addition, MBDC clients share in the cost of the program through client fees. Client fees are charged by MBDCs for M&TA and they are based on a standard rate of $50 per hour. Large firms (gross sales over $500,000) pay 20% of the cost at $17.50 per hour and small firms (gross sales $500,000 or less) pay $10.00 per hour. Client fees can be used by the MBDC to meet its cost-sharing requirement.

PAST PERFORMANCE DATA

Annually for the past few years, MBDA, through its MBDCs, has consistently achieved its program performance goals. Highlights of these achievements are provided as follows:

- A $64.00 nationwide ROF for each program dollar outlay by MBDA in FY 1987.
- Approximately 14,500 clients have been assisted annually for the past three years.
  - 91% of each year's business clients have had paid employees, representing approximately 83,000 jobs.
  - Approximately 19% of the total clients assisted have been minority females.
  - MBDA has assisted approximately 400 8(a) firms and helped obtain 500 8(a) contracts for clients on an annual basis.
  - MBDA has assisted approximately 10,200 operating businesses a year.
  - 30% of MBDC clients have been in the service industry, while 27% have been in construction and 13% have been in retail trade and manufacturing.
  - 93% of clients have had gross sales in the range of 0 - $999,000 and 7% have had sales of $1 million and above.
- Annually, MBDCs collect approximately $1.4 million in client fees which represents 81% of total billings.

FY 1987 PROGRAM DATA

A. The Goals vs. Actual Performance Report, as shown in the attachment as Part 1, is prepared by MBDA's Office of Program Support. The information is retrieved from MBDA's computer data base which is known as the Business Development Report (BDR) system.

The format of the report provides information in the following categories which are primarily self explanatory.

Headings

- MBDA Region - The MBDC program operates accordingly to six regions. They are:
  - Dallas
  - Washington
  - San Francisco
  - Atlanta
  - New York
  - Chicago
- No. of MBDCs in Region

- Name of MBDC
- Program Year (The fiscal year as denoted which is the same for all projects - FY 1987.)
- Award Months in FY 1987. (Note: Most MBDCs are funded for 12 months.)

The MBDC program is results oriented. This means that its performance is measured through actual accomplishments, not just operational program activities. The deliverables are tangible and impact favorably upon the needs/aspirations of the minority business community.

The quantitative performance indicators for which MBDA sets goals are as follows:

- Number of Clients Assisted
- Hours of M&TA Provided
- Dollar Amount of Financial Packages
- Dollar Amount of Procurement Contracts

The report shows, for each MBDC funded in FY 1987, the goal levels required, the actual amounts attained for each goal, and the corresponding percentage of goal attained.

The summary page of this report provides national totals for the accomplishments of the MBDC projects funded in FY 1987 as follows:

	% of Goal
- Number of Clients 11,731	125
- Hours of M&TA 231,263	56
- Financial Packages (Approved from financial institutions) $610,629,370	166
- Procurement Contracts Obtained (From public and private sectors) $1,050,503,048 [Exceeds $1 billion for first time]	131

The results clearly show that the MBDC program is not only viable, but is exceeding expectations.

B. Return on Funding (ROF)

The ROF for the MBDC program and the Indian Business Development Center (IBDC) program (Attachment - Part 2) reflects total dollar performance of these programs vs. Federal funding provided. Total dollar performance represents the dollar value of M&TA provided at $50.00 per hour plus the amount of financial packages and procurement contracts obtained by MBDCs for its clients. Federal funding is the average monthly amount provided by MBDA for the operation of MBDCs.

With the above M&TA hours valued at the standard $50/hour, the dollar value of actual M&TA provided to clients is $11,563,150, which, when added to the Financial Packages ($611 million) and Procurement Contracts Obtained ($1,051 million), totals $1,762,695,568 or $64 for every $1 invested by the Federal Government($26,197,944 total funding). No other government agency - Federal, state or local can make this claim. Furthermore, no other government agency collects client service fees.

The goal for total dollar performance in FY 1987 was $1,185,496,224 at a 45 to 1 ratio.

In FY 1986, the actual ROF was 46 to 1.

The rankings of regional performance show the Chicago region at the top of the list with a ROF of 99 to 1 and the Washington region at the lower end with 33 to 1.

Based upon the information provided by these reports and program monitoring efforts, MBDA's record attest to the success and continuing effectiveness and practicality of the MBDC program.

The MBDC monitoring guidelines require a 15% sampling of MBDC report client accomplishments. Therefore, all reported activity by the MBDC is not verified. However, the terms and conditions of MBDC awards treats unsupported or undocumented claims as fraud.

If only half of the reported claims of the MBDC were found to be true, which is an inordinate reduction, the program's ROF would still be an outstanding achievement at 32 to 1.

○